STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	**:**	
-vs-	**:**	
Commonwealth Edison Company	**:**	
	:	**08-0532**
Investigation of Rate Design Pursuant to	**:**	
Section 9-250 of the Public Utilities Act.	**:**	

PROPOSED INTERIM ORDER

February 1, 2010

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I. INTRODUCTION

On September 10, 2008, the Illinois Commerce Commission ("Commission") entered the Initiating Order in this proceeding pursuant to Section 9-250 of the Illinois Public Utilities Act to investigate all aspects of the rate design for Commonwealth Edison Company ("ComEd" or the "Company"). The Commission indicated that in this proceeding it did not intend to review or consider any changes in the revenue requirements it had most recently determined for ComEd, or to modify its conclusions (other than those related to rate design) in *Docket 07-0566*. *See Commonwealth Edison Company*, Docket No. 07-0566 (Sept. 10, 2008) ("*Docket 07-0566*").

To facilitate the investigation ComEd was directed to provide an updated cost of service study that:

(1) differentiates between primary and secondary voltage level;

(2) analyzes the cost of providing Customer Care to a customer taking supply from an alternative supplier versus the cost of providing Customer Care to a customer taking supply from ComEd;

(3) analyzes the extent to which usage contributes to customer billing costs, data management costs, installation costs, service drops, and customer information costs and whether factors other than the number of customers in a class should be taken into account in the assignment of these costs to rate classes;

(4) that allocates uncollectible debt expense costs across all residential classes; and

(5) takes into account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities and allocates costs accordingly.

The Commission further indicated that it would "utilize these updated studies provided in this record to perform a comparative analysis with the rate structure allowed in our Order in *Docket 07-0566*. Based on this analysis we will determine what changes, if any, are necessary, to ensure that the rate structure of ComEd, with appropriate consideration of historic rate structures of the company, are in fact just and reasonable." Initiating Order at 3.

The following parties filed appearances and/or Petitions to Intervene in this docket, which were granted by the Administrative Law Judges ("ALJs"): The People of the State of Illinois by Lisa Madigan Attorney General of the State of Illinois ("AG"); ComEd; the City of Chicago ("the City"); Thermal Chicago Corporation, the University of Illinois, Abbot Laboratories, ArcelorMittal USA, Caterpillar Inc., Enbridge Energy, Exxon Mobil Gas Power Services, Inc., General Iron Industries and Sterling Steel Company LLC all as part of the Illinois Industrial Energy Consumers ("IIEC"); Nucor Steel Kankakee; the Commercial Group ("CG"); the Citizens Utility Board ("CUB"); the Chicago Transit Authority ("CTA"); Kroger Co. ("Kroger"); Northeast Illinois Regional Commuter Railroad Corporation d/b/a Metra ("Metra"); the Retail Energy Supply Association; the United States Department of Energy ("DOE"); Constellation New Energy, Inc.; the Coalition to Request Equitable Allocation of Costs Together ("REACT"); and the Building Owners and Managers Association of Chicago ("BOMA").

Peter Lazare, a Senior Rate Analyst in the Rates Department of the Financial Analysis Division of the Commission, provided direct and rebuttal testimony for Staff. Testifying for ComEd was Lawrence S. Alongi, Michael J. Meehan, Alan C. Heintz, and Ross C. Hemphill, PhD. Testifying for the AG was Scott J. Rubin. Testifying for BOMA-Chicago was Guy Sharfman. Testifying for the City was Edward C. Bodmer. Testifying for the Commercial Group was Richard A. Baudino. Testifying for CTA-Metra was James G. Bachman. Testifying for the IIEC was Robert R. Stephens, David L. Stowe and James R. Dauphinais. Testifying for Kroger Co. was Kevin C. Higgins. Finally, testifying for REACT was Bradley O. Fults and Jeffrey Merola.

Pursuant to notice given in accordance with the law and the rules and regulations of the Commission, evidentiary hearings were held before duly authorized ALJs on November 2nd and 3rd, 2009, at the Commission's offices in Chicago, Illinois. During the course of the evidentiary hearings, the witness testimony for Staff, ComEd, BOMA, the City, CG, CTA, Metra, IIEC, Kroger, and REACT were admitted into evidence. The AG's testimony was admitted into evidence on November 12, 2009 pursuant to the ALJs ruling. In the same ruling the ALJs marked the record heard and taken.

Initial Briefs were filed on November 20, 2009 by Kroger, Staff, CG, IIEC, CTA, REACT, the City, Metra, the AG, and ComEd. Reply Briefs were filed on December 7, 2009 by CTA, Staff, CG, Metra, the City, IIEC, REACT, ComEd, and DOE. The ALJs Proposed Order was served on February 1, 2010.

II. PRIMARY/SECONDARY COST ANALYSIS

A. ComEd

ComEd asserts that the threshold issue in performing a primary/secondary analysis is determining at what point it is reasonable, for cost allocation and rate making purposes, to draw the line between primary and secondary facilities. ComEd argues that it drew that line using long-standing, Commission-approved definitions of its primary and secondary distribution systems. ComEd's primary distribution system is defined as consisting of facilities used to distribute electricity at voltages 4,000 Volts or higher phase-to-phase and less than 69,000 Volts phase-to-phase. The secondary distribution system is defined as consisting of facilities used to distribute electricity at voltages less than 4,000 Volts phase-to-phase.

ComEd argues that these definitions provide a clear point of demarcation and a reasonable basis for allocating costs to customer classes. ComEd also emphasizes that these definitions were not created for the purpose of conducting this analysis, but have existed in ComEd's tariffs for many years. In this regard, ComEd notes that Staff witness Lazare considered this fact to be "*the most important evidence regarding the Company's judgment on the issue*." Staff Ex. 1.0 at 8 (emphasis added). Accordingly, Staff found this fact to be a "key consideration" when it determined that ComEd's definitions of its primary and secondary distribution systems should apply to the analysis.

Once the primary and secondary distribution systems were defined, ComEd then identified its distribution costs as either primary or secondary. In order to determine primary and secondary distribution costs, ComEd analyzed detailed plant data, which include the equipment and corresponding costs, in certain Uniform System of Accounts ("USOA"). In this exercise, ComEd examined the costs in USOA Accounts 360-373. The purpose of analyzing these accounts was to determine which types of equipment served either the primary or secondary distribution system. Ultimately, it was determined that the USOA Accounts that included primary and secondary distribution facilities were Accounts 361, 364-367. Meanwhile, for situations where certain data were not available, ComEd used engineering judgment to assist in estimating the costs associated with the primary or secondary distribution systems.

Once ComEd separated its distribution-related costs between its primary and secondary distribution systems, it then identified the customers in each of its delivery classes receiving service directly from the secondary distribution system, and those customers that utilize only the primary distribution system. ComEd explained that this analysis allowed it to assign the appropriate amounts of secondary distribution system costs and primary distribution system costs incurred to serve customers in each delivery class.

ComEd's total investment in distribution facilities as of December 31, 2006 (the test year used in ComEd's 2007 Rate Case) is approximately $6.3 billion. Based upon

ComEd's primary/secondary analysis, revised slightly in rebuttal testimony, 13.5%, or $850 million, of this investment was assigned to the secondary distribution system. Incorporating the results of ComEd's revised primary/secondary analysis into the embedded cost of service study ("ECOSS") shifts approximately $38 million of cost responsibility to the residential classes from other delivery classes. Meanwhile, larger nonresidential customers realize a reduction of more than $45 million in cost responsibility resulting from ComEd's primary/secondary analysis.

ComEd asserts that its testimony and evidence demonstrate that its primary/ secondary analysis is reasonable and may be relied upon to assist the Commission in evaluating the allocation of costs among its 15 classes of delivery customers. To support its position, ComEd notes that Staff, the AG, Commercial Group, BOMA and Kroger all find its primary/secondary analysis to be reasonable.

1. ComEd's Response to Other Parties

ComEd states that IIEC, REACT, CTA and Metra each attack ComEd's primary/secondary analysis with the goal of shifting even more of the cost allocation to other customers. However, ComEd asserts that each of their arguments rests on a common flaw: their proposals expressly reject the application of ComEd's historic, Commission-approved definitions for its primary and secondary distribution systems. Accordingly, ComEd argues that the Commission should reject attempts to redefine its primary and secondary distribution systems.

Turning first to IIEC, ComEd argues that IIEC's main arguments attacking ComEd's primary/secondary analysis are premised on its refusal to use ComEd's Commission-approved definitions of its primary and secondary distribution systems. In particular, ComEd asserts that IIEC expressly seeks to redefine its distribution system by dividing it into three sub-systems: (a) a primary system, (b) a secondary system, and (c) a general lighting system. ComEd disagrees with this proposal.

ComEd submits that CTA/Metra improperly seek to segment ComEd's primary distribution system by excluding ComEd's 4 kV primary distribution facilities from the definition of primary facilities, at least as that definition is applied to the two members of the Railroad Class. ComEd also objected to CTA's argument that it should not be allocated any costs of ComEd's 34.5 kV primary distribution facilities, which it noted, suggests yet a further segmentation of ComEd's primary distribution system. ComEd argues that these claims should be rejected for several reasons. First, ComEd asserts that the CTA/Metra proposal defies the Commission-approved definition of its primary distribution system, which is defined as facilities used to distribute electricity at voltages 4,000 Volts or higher phase-to-phase and less than 69,000 Volts phase-to-phase. Second, ComEd states that CTA/Metra's proposal assumes that ComEd's 12.5 kV lines operate in a vacuum. ComEd disagrees, pointing to evidence demonstrating that its 12.5 kV lines share primary facilities with other primary voltage lines (4 kV and 34 kV), *e.g.*, poles and conduit, and serve the same purpose as lines that operate at 4 kV and 34 kV. To support this point, ComEd references the testimony of Staff witness Lazare,

who noted that ComEd's primary distribution system "distribute[s] electricity along public property, road right-of-way or easements to relatively larger numbers of retail customers over longer distances with fewer electrical energy losses and less voltage drop as compared to what can be achieved with secondary voltages." Staff Ex. 1.0 at 7. Consequently, ComEd urges the Commission to reject CTA/Metra's position because these customers use more than just 12.5 kV lines—they use many other primary facilities that comprise ComEd's primary distribution system and serve the same purpose.

ComEd also states that the CTA/Metra proposal would require that ComEd subdivide the analysis of its primary system. As ComEd witness Alongi explained, once ComEd completed a primary/secondary cost analysis, it would then have to conduct a separate analysis to determine how much of the primary system cost is attributable to 4 kV facilities. Once that exercise was completed, ComEd would then need to determine how much of the 4 kV costs should be allocated to customer classes other than the Railroad Delivery Class. Depending on how the analysis were to be performed, ComEd states that the CTA/Metra proposal could require that ComEd study each of the 71 traction power stations taking service in order to determine both the direct cost of service, as well as determine the cost of shared primary facilities. ComEd argues that this is a concept the Commission has previously rejected. *Docket 07-0566*, Order at 210.

In sum, ComEd states that the Commission should reject attempts to redefine its primary and secondary distribution systems. It argues that such proposals conflict with ComEd's Commission-approved definition of its primary system and would blur the clear line of demarcation between its primary and secondary distribution systems. Moreover, ComEd submits that use of these definitions is consistent with the Commission's expressed intent to examine the information presented in this proceeding "*with appropriate consideration of historic rate structures* of the company...." Initiating Order at 3 (emphasis added). For these reasons, ComEd concludes that the Commission should find use of ComEd's long-standing Commission-approved definitions of its primary and secondary distribution systems to be reasonable.

ComEd also responded to other claims attacking its primary/secondary analysis. On the issue of the proper categorization of line transformers, ComEd argues that IIEC's claims that these transformers should be classified as "secondary" are incorrect. First, ComEd states that virtually all of its customers require transformers for electric service. Consequently, there is no purpose in trying to categorize each of ComEd's 440,000 line transformers as either primary or secondary. Here, ComEd notes that Staff concurred with its position on this issue.

ComEd likewise explained why IIEC's "functionalization" claim was incorrect, asserting that it showed that IIEC's claim was premised on an incorrect assumption regarding how customers are served. In particular, ComEd demonstrated that it has customers in the Extra Large Load Delivery Class that are served by line transformers, whose costs are reflected in FERC Account 368 - Distribution Line Transformers. Put

another way, ComEd avers that such customers do, in fact, use secondary facilities to receive service. As such, ComEd argues that it has refuted IIEC's functionalization claim.

ComEd also responded to IIEC's claim that ComEd did not "learn" from other utilities when preparing its analysis. ComEd submits that such a claim is meritless and provides three reasons for rejecting this claim. First, ComEd states that to the extent that other utilities have accounting, management, and operating systems in place that explicitly identify and separate primary and secondary system costs, ComEd could not at tern its analysis after those utilities, as ComEd does not have systems that separately track primary and secondary costs. Moreover, ComEd noted that it had no business or regulatory reason to track costs in this fashion, so it does not have the systems to account for costs in this fashion. Second, ComEd states that it is responsible for designing its distribution system to serve its customers. Thus, it was appropriate to rely on its personnel to consider its practices and employ its judgment in evaluating the service it provides. In this regard, ComEd argues that it is ironic that while ComEd was chided for using its judgment, apparently IIEC has no objection to using an analysis of a third party that may incorporate any number of unknown judgments or practices. Finally, ComEd claims that IIEC made no showing that other utilities' analyses are widely accepted or without flaw. Hence, those analyses may have been attacked, modified or rejected by other regulators. To support this argument, ComEd cites to IIEC's admission that they could "not confirm either the quality or the accuracy of other utilities' studies." Accordingly, ComEd concludes that its primary/secondary analysis is not deficient simply because ComEd did not rely upon the studies of other utilities.

ComEd also responded to claims from IIEC, REACT, CTA and Metra asserting that ComEd improperly used "engineering judgment" when conducting the primary/secondary analysis. ComEd argues that these claims suffer from several flaws. First, ComEd notes that its primary/secondary analysis is based on both actual data (when readily available), and engineering judgment. Consequently, its analysis was not merely based on the application of "judgment." Second, after reading Staff and Intervenor direct testimony, ComEd performed sampling to test the assumptions and judgments on a number of issues. This testing resulted in adjustments to the primary/secondary analysis, but these adjustments resulted only in a relatively small shift in the dollars allocated between customer classes. From this, ComEd concluded that the application of its engineering judgment was reasonable and should be accepted.

However, ComEd states that it is not asserting that its engineers are infallible when applying judgment during this analysis. Accordingly, in an effort to further refine its primary/secondary analysis for future proceedings, ComEd has no objection to conducting well-defined workshops to refine its use of engineering judgment.

B. Staff

1. Overview

Based on the evidence in this case, Staff supports ComEd cost of service study incorporating Staff's proposed revisions as an appropriate foundation for ratemaking. This revised study incorporates the Company's proposed method for identifying the costs for primary and secondary service; Staff's proposed coincident peak ("CP") allocator for primary lines and substations; and ComEd's revised services allocator that corrects deficiencies indentified by Staff.

Staff points out that while ComEd presents the most reasonable method of identifying primary and secondary costs in this docket, the record has identified a number of deficiencies in the Company's approach. That is why Staff recommends that the Commission approve Staff's proposal to convene workshops within three months of the final decision in this case to identify ways in which the accuracy of the Company's cost of service studies can be improved. The workshops would be jointly convened by Staff and ComEd; however all interested parties would jointly decide what issues to explore in the workshop process and how many workshops sessions would be held.

If the Commission decides to develop a new set of class revenue allocations in this docket, it should adopt an alternative approach that more fairly recognizes the contribution of customer classes to cost recovery.

2. Separation of Primary and Secondary Costs

Staff witness Lazare testified that the centerpiece of ComEd's filing is the presentation of separate costs for primary and secondary service in the cost of service study. Staff Ex. 1.0, at 5. He explained that the Company also estimates the number of primary and secondary customers so that customers taking service at the primary level are allocated a share of only the primary component of these costs while secondary level customers receive both primary and secondary costs. Staff Ex. 1.0 at 6.

Mr. Lazare testified that, as a starting point for its analysis, ComEd defines primary service as service that ranges from 4 kV to below 69 kV of service. Service below 4 kV is considered secondary service (ComEd Ex. 1.0 at 14-15) and service at 69 kV or above is separately identified in the Cost study. Staff Ex. 1.0 at 7.

Mr. Lazare raised an initial concern with whether 4 kV is the proper dividing line between primary and secondary service. He explained that ComEd witness Alongi justifies the 4 kV threshold for primary service "on his nearly 35 years of experience with ComEd and ComEd's definition of primary distribution systems in its General Terms and Conditions." ComEd contends that "a primary voltage is generally used to distribute electricity along public property, road right-of-way or easements to relatively larger numbers of retail customers over longer distances with fewer electrical energy losses and less voltage drop as compared to what can be achieved with secondary voltages."

Staff Ex. 1.0 at 7. The Company's discussion indicates to Mr. Lazare that there is no hard and fast dividing line between primary and secondary voltages, but rather the separation between the two is based on judgment. He noted that ComEd does not cite any general industry standard or principle behind its definitions which also suggests this is a matter of judgment. Staff Ex. 1.0 at 8.

Mr. Lazare testified that in assessing the reasonableness of the Company's definitions, a key consideration is when were those definitions developed. He found that ComEd's definition of primary service as 4 kV and above predates the current proceeding because it is embedded in the Company's General Terms and Conditions which have been in effect for some time. Thus, it appeared to him that this is the definition of primary service which ComEd has traditionally employed and it should apply in this case. Staff Ex. 1.0 at 8.

Mr. Lazare recognized that the Company has encountered a number of challenges in differentiating between primary and secondary service costs for its cost of service study in this case, the most important problem being a lack of data. ComEd has not previously "recorded on its books gross plant in a manner that distinguishes between the costs of primary and secondary facilities." ComEd Ex. 1.0 at 15. So the Company had to employ alternative means of distinguishing between the two sets of costs. The potential alternatives include: (1) direct observation of the system to identify primary and secondary components that could be extrapolated to the system as a whole; (2) informed judgments about how costs are differentiated between primary and secondary components; and (3) some combination of the two. Staff Ex. 1.0 at 8-9.

Mr. Lazare explained that the method ComEd adopted combined a review of existing plant data (as of September 30, 2008) and the use of "engineering judgment" when needed to estimate the primary and secondary components of distribution costs. ComEd Ex. 1.0 at 16. He noted that the Company stated that this engineering judgment "consists of the consensus view among ComEd's New Business Engineering department, Capacity Planning department, Retail Rates department, Asset Information and System Policy department, and Plant Accounting department based upon the readily available information and combined experience of the individuals from each department." Staff Ex. 1.0 at 10.

Staff witness Lazare testified that the judgmental process is difficult to follow because most of the employees in various Company departments who provided their engineering judgment for the cost analysis are not testifying in the case or identified. Thus, the regulatory process must rely on the understanding of Mr. Alongi about the evidence that was considered and how that evidence was used to produce the engineering judgments that support the proposed differentiation of primary and secondary costs for the ECOSS. Staff Ex. 1.0 at 10.

Staff's understanding is that the Company's first step in its analysis is to identify which cost accounts can be separated into primary and secondary components. Company witness Alongi indicated the analysis would be limited to four accounts:

- 364 – Poles, Towers and Fixtures
- 365 – Overhead Conductors and Devices
- 366 – Underground Conduit, and
- 367 – Underground Conductors and Devices

Staff Ex. 1.0 at 16. The Company subsequently modified this conclusion to also include $4,723,630 of costs in Account 361, Structures and Improvements as secondary costs. Staff Ex. 1.0 at 11.

Staff had an initial concern that this list did not include any transformer costs which were collectively classified as primary only. The Company justified this approach by arguing that it "used the simple guiding principle that the assignment of a transformer to primary versus secondary is determined by the voltage of the source-side of the transformer, not the load-side of the transformer." ComEd went on to provide the example of "a transformer that transforms a source-side voltage of 12,470 volts to a load-side voltage of 120/240 volts, is assigned to primary because the source-side voltage of 12,470 volts is a ComEd primary distribution voltage." Staff Ex. 1.0 at 12.

Staff had concerns with this argument because even though the incoming voltage in the preceding example is primary, it steps down to secondary voltage upon leaving the transformer. Since the exiting voltage is secondary, the transformer can only serve secondary customers and from that standpoint it would be unreasonable to associate transformers with primary service. Staff Ex. 1.0 at 12-13.

However, additional information that was presented in ComEd's rebuttal testimony led Staff to reconsider its argument that transformers should be broken down into primary and secondary components. That information pertains to the number of customers that receive electricity at the primary level. According to ComEd's estimates approximately 300 customers (other than high voltage) actually receive power at the primary level while all other customers (excluding high voltage customers) receive power at the secondary level and therefore have their power transformed from a primary down to a secondary level. So, if virtually all ComEd customers require transformers to step their power down from the primary to the secondary level, it is not clear to Staff what would be the impact of dividing transformer costs into primary and secondary components.

Staff's position is that in this situation, it would not be a useful exercise to divide these costs into primary and secondary components. Instead the approximately 300 customers who do not require such transformation should be identified and they should receive a downward rate adjustment reflective of transformation cost savings. The remaining 3.7 million customers requiring transformation down to the secondary level should pay rates that reflect an allocation of transformer costs.

Staff pointed out in its testimony and briefs that in identifying primary and secondary costs for Account 364 – Poles, Towers and Fixtures, ComEd makes a

number of assumptions to differentiate between the primary and secondary level costs. All steel poles as well as all other poles above 50 feet are assumed to serve primary voltages only and the associated costs are assigned accordingly. The Company assumes that wood poles 50 feet in height or less carry both primary and secondary conduit and allocates the associated costs by applying four different assumptions in various areas about the incidence of secondary service on poles of this height, ranging from 90% down to 10% and resulting in the conclusion that 57% of these poles contain secondary facilities. ComEd Ex. 1.5 at 4. The only explanation for these assumed percentages is that they are "based on engineering experience". Staff Ex. 1.0 at 15.

Mr. Lazare went on to explain that the costs for these poles that are assumed to contain both primary and secondary facilities are allocated 50/50 between primary and secondary service. Since 57% of wooden poles 50 feet in height or less are assumed to have secondary costs, the Company thereby considers 28.5% of the associated costs as secondary. The Company justifies this 50/50 allocation on the basis of "engineering judgment". ComEd Ex. 1.0 at 18; Staff Ex. 1.0 at 15-16.

Mr. Lazare explained that the difficulty lies in assessing this engineering judgment. ComEd does not provide much in the way of explanations beyond statements that either "engineering experience" or "engineering judgment" was employed. This makes it difficult to reach a conclusion concerning the reasonableness of ComEd's approach. When, for example, the Company assumes that 90% of the wood poles 50 feet or less in the Maywood region contain secondary facilities based on "engineering experience", it is difficult to independently assess whether that figure is too low or too high. The same holds true for the Company's 50/50 allocation of costs for applicable poles to primary and secondary on the basis of "engineering judgment". Consequently, Staff cannot conclude whether the assignment of 28.5% of the costs for wood poles 50 feet or less to the secondary level is too high or too low based on the evidence provided. Nevertheless, the Commission requires that the secondary component of distribution costs be indentified for this proceeding and Staff has not identified any alternative to the Company's approach that it considers more reasonable. Staff Ex. 1.0 at 16-17.

Staff further testified that similar issues arise for the Company's differentiation of costs in Account 365 – Overhead Conductors and Devices between primary and secondary components. Staff Ex. 1.0 at 17-18. Staff understands that the Company performed two separate analyses; one for the City of Chicago and another for the remainder of ComEd's service territory. In Chicago, the Company has sufficiently detailed records to identify the length of wire devoted to primary and secondary voltages. The data indicates that approximately 26.4% of open wire within the city serves secondary loads. So 73.6% of open wire in Chicago was allocated to primary service. ComEd Ex. 1.0 at 18-19. However, similar plant data is not available outside Chicago, so the Company judged that "based on the presence of fewer open wire installations, 85% of the wire outside the City of Chicago is used for primary facilities. ComEd Ex. 1.0 at 19.

Mr. Lazare testified that he had more confidence in the allocations of Overhead Conductors and Devices between primary and secondary voltages for Chicago than for the remainder of ComEd's service territory. He explained that the Chicago allocations appear reasonable to him because they are based on plant records which provide direct data on the incidence of primary and secondary wire and the relative share of the two provides a basis for identifying primary and secondary costs. The allocations outside Chicago he found difficult to assess because the only justification for the Company's numbers is Mr. Alongi's understanding of "the presence of fewer open wire installations" outside Chicago. How these general statements translate into a specific allocation of 85% of wire to primary and 15% to secondary outside Chicago is not clear to Mr. Lazare. Staff Ex. 1.0 at 18.

Mr. Lazare went on to testify that the same problem arises for Account 366 – Underground Conduit allocated between primary and secondary voltages. Staff Ex. 1.0 at 18-19. ComEd was able to rely on plant records for Chicago and found that 5.1% of the conduit in the City contained secondary facilities. Lacking comparable data outside the City, ComEd assigned 1.0% of the conduit there to secondary based on the argument that "significantly fewer underground secondary distribution systems are in conduit outside the City of Chicago." ComEd Ex. 1.0 at 19-20.

Again, while existing records provide a basis for the allocation of costs within the City, it is not clear to Mr. Lazare how Mr. Alongi's understanding that "significantly fewer underground secondary distribution system are in conduit" elsewhere translates into specifically assigning 1.0% of that conduit to secondary. Staff Ex. 1.0 at 20-21.

Mr. Lazare noted in his testimony that in differentiating costs for Account 367 – Underground Conductors and Devices between primary and secondary voltages, the Company first examined the specific descriptions of individual equipment in this account. Equipment identified as "Bus-Manhole", Cable-Secondary-Buried" and "Cable-Secondary-In-Duct" was assigned to secondary with virtually all remaining unitized costs in this account considered primary. Non-unitized costs within the account for a distribution center were assigned to primary and other non-unitized costs were allocated between primary and secondary consistent with previous allocations. ComEd Ex. 1.0 at 20. Staff understands that these allocations are facilitated by plant records which identify certain equipment as either primary or secondary. For the accounts that were allocated, the issue remains concerning the reasonableness of the Company's engineering judgments. Staff Ex. 1.0 at 19-21.

In sum, Staff's understanding is that the Company uses a variety of direct assignments and allocation methodologies to determine the primary and secondary components of these accounts. While some approaches appear straightforward, others incorporate varying assumptions. This is particularly true for those allocations that depend on engineering judgments. For example, when asked to provide all arguments relied for the estimate that 57% of wooden poles 50 feet or less in height contain secondary facilities, the Company stated that, "[p]ole counts by region were extracted from CEGIS, to which engineering judgment was applied to estimate the percentage of

poles by region that may have secondary facilities attached thereto." Mr. Lazare explained that what that engineering judgment consisted of and whether it was reasonable cannot be determined from the level of information provided. Staff Ex. 1.0 at 20.

Mr. Lazare went on to testify that when asked to provide all arguments supporting the 1.0% figure for underground conduit outside Chicago allocated to secondary service, the Company stated, "[t]ypically, ComEd would only install secondary conduit systems in central downtown districts where a secondary network would serve customers in the central district. Outside the City of Chicago there are fewer secondary networks and consequently fewer conduits with just secondary distribution systems, therefore the amount was estimated to be 1.0%." How the Company transitioned from its general conclusion to specific estimate for secondary distribution costs is not explained. Staff Ex. 1.0 at 20-21.

Nevertheless, despite these deficiencies, Staff is unable to identify an alternative methodology that would produce more reasonable allocations than the Company proposes. Therefore, Staff finds the Company's proposed approach the most reasonable method available to allocate system costs between primary and secondary voltages. Staff Ex. 1.0 at 21.

Mr. Lazare further testified that the next step in allocating primary and secondary costs is to determine the number of primary and secondary customers on ComEd's system. Those customers identified as primary customers are allocated only primary costs while secondary customers are allocated both primary and secondary costs. The challenge in identifying primary and secondary customers is that ComEd's records do not distinguish between the two. As a result, an alternative must be found to separate customers into these two categories. Staff Ex. 1.0 at 21.

Mr. Lazare's understanding is that, as a first step, ComEd assumes that all customers with demands greater than 400 kW receive service directly from a transformer and therefore bypass the secondary distribution system. For remaining customers, ComEd queried its billing system to determine how many are served from a transformer that other accounts do not share, the idea being that customers directly served from a transformer bypass the secondary distribution system and thereby fall into the primary category. ComEd Ex. 1.0 at 20-21; Staff Ex. 1.0 at 21-22.

The Company then sought to identify the number of multifamily residential customers who could be considered primary customers. These are customers who reside in larger apartment buildings that receive service directly from a transformer and thereby bypass the secondary distribution system. ComEd contends that these customers can be identified because they have a unique set of meters. So the Company used the number of these meters in service as a proxy for the number of multi-family customers receiving primary service. ComEd Ex. 1.0 at 21; Staff Ex. 1.0 at 22.

He further noted that ComEd encountered more difficulty in dividing lighting customers between primary and secondary service. The Company indicated that most lighting customers are connected to the secondary system but some are directly connected to a transformer and thereby should be considered primary. To identify this group, the Company first assumed that all metered dusk to dawn accounts contain sufficient loads to make them primary customers. ComEd then sought to identify additional lighting customers that are served by a transformer and therefore bypass the secondary distribution system. The Company assumed that transformers not specifically assigned to other customers on the system must directly serve lighting customers. This assumption was used to adjust the number of primary lighting customers upwards. ComEd Ex. 1.0 at 21-22; Staff Ex. 1.0 at 22-23.

Mr. Lazare testified that again, the Company's assumptions are difficult to assess. For example, the assumption that customers directly associated with a transformer are in fact, bypassing the secondary system and receiving service at the primary level cannot be corroborated. For residential customers in larger apartment buildings, it is difficult to test the Company's assumption that the meter type provides a fail-safe method of determining whether they are receiving primary or secondary service since no corroborating evidence was provided. Staff Ex. 1.0 at 23-24.

He explained that a similar problem exists concerning ComEd's assumption that transformers not assigned to other customers must, by default, be serving lighting customers. The Company indicates that this is the only possible explanation for these transformers. Staff does not have any independent evidence to support or disprove this argument. Staff Ex. 1.0 at 23-24.

Thus, it is difficult to assess the reasonableness of ComEd's method of identifying primary and secondary customers. Nevertheless, Staff has not identified any alternative approach that would produce better results. Thus, Staff considers the Company's approach to be the most reasonable method in this case of identifying primary and secondary customers on the system. Staff Ex. 1.0 at 24.

However, Mr. Lazare testified as to additional problems with ComEd's analysis. One is that the Company has not actively reviewed studies of primary and secondary costs prepared by other utilities. Staff Ex. 1.0 at 24. According to the Company, "ComEd is aware of and has briefly reviewed some of the primary/secondary analyses performed for the Ameren Utilities. ComEd has not reviewed any other primary/secondary analyses for any other utility for the purposes of performing its primary/secondary analysis." A review of existing studies might enable the Company to learn from the experience of other utilities in this area and avoid some of their mistakes. Furthermore, a comparison of the Company's method with the approach taken by other utilities would make it easier to determine whether that the Company has adopted the most reasonable method of identifying primary and secondary costs. Staff Ex. 1.0 at 24-25.

A second concern is that the Company relied solely on engineering judgment for assumptions about primary and secondary costs and made no physical inspections of

facilities to verify the reasonableness of those assumptions. While the Company could not be expected to inspect its entire system, some visual analyses would enable ComEd to test the validity of certain engineering assumptions that drive its analysis of primary and secondary costs. Staff Ex. 1.0 at 25.

In its initial brief Staff set forth that the Company's discussion of its analysis in rebuttal demonstrates the need to use visual inspections in the analysis of primary and secondary costs. In its rebuttal, ComEd discussed some follow-up efforts it undertook to test engineering assumptions underlying its study of primary and secondary costs. For example, the Company performed a limited test of its assumption that all multi-family customers with 120/208 volt meters are primary. The Company analyzed five heating and fifteen non-heating residential customers possessing such meters and found three of the fifteen non-heating customers were, in fact, secondary customers. As a result, the Company has revised downward its estimate of the percent of multi-family customers with 120/208 volt meters receiving primary service from 100% to 82.4%. ComEd Ex. 6.0 at 25-26.

Staff also set forth in its initial brief that ComEd performed a limited test of its assumptions concerning the percentage of wooden poles with secondary facilities. As a result, the Company found it necessary to revise its estimates of secondary facilities for wooden poles 50 feet or lower and above 50 feet as well. ComEd Ex. 6.0 at 30-31.

These examples demonstrated to Staff the limitations of using engineering judgments alone to identify primary and secondary costs on the ComEd system. Staff argued in its initial brief that there is a clear need to expand the scope of visual inspections to test those judgments and produce an accurate analysis of primary and secondary costs.

Finally Mr. Lazare noted in his testimony that ComEd's analysis is not consistent with the Commission's initial understanding of the primary/secondary issue. The Commission presented the following definition of primary service in its Final Order for *Docket 07-0566* accordingly:

> Some customers take electric service at high voltage only. These are primary customers. They comprise .2% of customers, yet they represent 20% of the system's peak demand.

Docket 07-0566, Order at 206. The Company in this case has presented a much broader definition of primary service that reaches down to 4 kV of service and includes customers in all classes, even the residential class. Since the Company's analysis is based on its longstanding definition of primary service it appears to be responsive to the Commission Order in this case, it should be employed until evidence is presented in the future to demonstrate why an alternative definition is more reasonable. Staff Ex. 1.0 at 25-26.

3. Staff's Response to IIEC's Alternative Approach

Staff's position is that the IIEC has presented a flawed alternative method of separating primary and secondary costs that should not be used for allocating the Company's cost of service.

Staff's understanding of the IIEC approach is that IIEC witness Stowe defines primary service as receiving power at a primary voltage and secondary service as receiving power at a secondary voltage. IIEC Ex. 2.0 at 4. Primary customers, as defined by IIEC, do not require the services of a utility transformer to step down their voltage to a secondary level, but instead use their own equipment for any transformation of voltages down to secondary levels. IIEC considers all remaining customers receiving power at lower voltages to be secondary customers. Staff Ex. 2.0 at 2.

Staff recognizes that conceptually, it is difficult to quarrel with IIEC's notion that primary service means receiving power at a primary voltage level and not sharing cost responsibility for the Company's network of transformers which step down voltages to secondary levels. Nevertheless, Staff's position is that IIEC's definition does not appear to be useful in determining responsibility for ComEd's network of secondary distribution wires. In particular, it would fail to count the numerous secondary customers identified by ComEd who bypass the Company's secondary distribution network and receive service directly from a transformer. Under the IIEC's definition, these customers would be lumped together with other secondary customers and be allocated the costs of a secondary system they do not use. Staff Ex. 2.0 at 3-4.

Mr. Lazare further testified that under the IIEC's definitions, the information provided by ComEd, if accurate, would restrict primary service to approximately 300 ComEd customers and classify everyone else as secondary customers. Consequently, there may not be much change in the allocation of distribution costs among customer classes under the IIEC's proposed definitions and the role of the primary and secondary cost analysis in the embedded cost study will be diminished. Staff Ex. 2.0 at 4-5.

Mr. Lazare testified there are also problems with IIEC's proposed method of identifying primary and secondary plant. The IIEC contends that ComEd's distribution system consists of three sub-systems. One part serves primary customers only; a second serves secondary customers only; and the third serves both primary and secondary customers. The IIEC argues that customers should only pay for those sub-systems that they actually use. IIEC Ex. 2.0 at 5.

Staff testified that the problem is that the IIEC does not indicate the relative sizes of these three sub-systems. This makes it difficult to evaluate whether each of the sub-systems is meaningful from a cost-causation standpoint and to understand how Mr. Stowe's breakdown of the distribution system serves the cost allocation process. Staff Ex. 2.0 at 5.

Mr. Lazare further testified that despite this data shortfall, the IIEC does contend that the secondary system comprises a larger share of the distribution system than estimated by ComEd. That is because the IIEC's definition of the secondary sub-system includes the costs of "multi-phase primary feeder circuits, single-phase primary lateral circuits, as well as the network of conductors and cables that operate at secondary voltage levels" and serve "small communities and subdivisions located within ComEd's service territory." In addition, the IIEC contends that "the secondary distribution sub-system includes some facilities that may be energized at primary voltage levels, but which are used exclusively to serve secondary customers." IIEC Ex. 2.0 at 8; Staff Ex. 2.0 at 6.

Mr. Lazare noted in his testimony that the Company agrees that the secondary distribution would be larger under the IIEC's definitions of primary and secondary service, but it cannot determine how much larger it would be. ComEd argues that it would have to completely revamp its analysis of primary and secondary costs to conform costs to those definitions. ComEd Ex. 6.0 at 14-15. The Company does not see the point in performing such an analysis, arguing that reconfiguring the analysis along the lines suggested by Mr. Stowe may not produce "any appreciable change in the costs allocated to ComEd's 15 delivery classes because the number of primary customers is so small based on Mr. Stowe's interpretation." ComEd Ex. 6.0 at 15; Staff Ex. 2.0 at 6.

Mr. Lazare testified that the Company's response on this issue presents a problem because it represents a judgment that has yet to be tested. ComEd has already acknowledged it does not know the number of customers receiving service at the primary level and it would be reasonable to assume it does not know the rate classes under which these customers take service. Thus, it would be premature to conclude that the IIEC's definitions of primary and secondary service would have little impact on the overall allocations of system costs. Staff Ex. 2.0 at 7.

Mr. Lazare recommended that this information shortfall should be addressed by requiring the Company in its next rate case to identify the non-high voltage customers on the system that receive service at the primary level. At a minimum, he found that this information is necessary to ensure that this customer group is not allocated costs for transformers that it does not need or use. Staff Ex. 2.0 at 7.

Mr. Lazare testified that the IIEC goes on to argue that ComEd's study underestimates secondary costs by failing to recognize that many primary lines serve secondary customers only. IIEC witness Stowe states that he visually inspected approximately 100 locations on ComEd's system through the use of Google Earth and found that "ComEd does, in fact, install and maintain single- and multi-phase laterals that serve large networks of secondary customers, but do not appear to serve any primary customers whatsoever." Mr. Stowe contends that these configurations are not reflected in ComEd's analysis (IIEC Ex. 2.0 at 23) and thereby implies that the Company's methodology understates secondary costs. Staff Ex. 2.0 at 7-8.

Staff found this argument by the IIEC difficult to assess because of a lack of evidence. IIEC witness Stowe claims this conclusion is based on on-line inspections of 100 different locations on the ComEd system. Nevertheless, the only record evidence he presents from this inspection is a single picture of an individual pole. IIEC Ex. 2.3. Thus, there is no way to independently verify that the other 99 locations Mr. Stowe inspected via Google Earth support his argument concerning primary and secondary costs. Staff Ex. 2.0 at 8.

In sum, the fact that information is limited in some instances or not available in others impedes an assessment of either the Company's analysis of the primary and secondary cost issue or IIEC's alternative. Nevertheless, the task in this proceeding is to identify the most reasonable estimate of primary and secondary costs. Staff Ex. 2.0 at 8-9.

In summary, Staff's position is that the IIEC's argument is based on restrictive definitions of primary and secondary service which, based on information provided by ComEd, would limit primary service to approximately 300 customers. This appears to not only reduce the impact of the primary and secondary cost analysis within the cost of service study but also understate the number of customers who bypass the secondary distribution system and are not responsible for the associated costs. Staff Ex. 2.0 at 9.

These deficiencies render IIEC's proposed definitions of primary and secondary service inappropriate for allocating the cost of service among customer classes.

4. Voltage Differentiated Rates

The IIEC recommends "that the Commission direct ComEd to provide voltage differentiated rates for all non-residential classes, for the Commission's consideration, in the context of its next delivery service rate case." IIEC Ex. 1.0, at 4. The IIEC contends this would allow rates to be designed that would more accurately reflect the costs customers impose on the ComEd system. IIEC Ex. 1.0, at 7. Staff Ex. 2.0, at 10.

Staff's position is that such an approach would not appear to be useful given the information provided by Mr. Alongi about the number of ComEd customers receiving service at the primary level. If, as Mr. Alongi contends, approximately 300 non-high voltage customers receive service at the primary level, then everyone else is taking secondary service. If virtually all customers are taking service at the secondary level, it is not clear that reorganizing ComEd customers into voltage-based rate classes would be useful and the IIEC's proposal should therefore be rejected Staff Ex. 2.0, at 10-11.

C. IIEC

1. Overview

IIEC notes that the Initiating Order in this docket noted that the Commission had found "substantial deficiencies in specific elements of the ECOSS" ComEd presented in

Docket 07-0566. According to the Commission, those deficiencies were sufficiently serious that they rendered the study problematic for use in setting rates. *Docket 07-0566*, Order at 213. The Commission stated: "Having considered the evidence and arguments of the parties, the Commission finds that the ECOSS is deficient in not separating and properly allocating primary and secondary service costs." *Docket 07-0566*, Order at 207.

IIEC believes, while ComEd's first attempt at performing a primary/secondary analysis to identify and separate the costs of primary and secondary service, has produced ECOSS modifications that move its results closer to a proper cost of service allocation, it has not taken adequate account of cost causation. According to IIEC, in this inaugural primary/secondary analysis, ComEd has failed to make full use of its own data or the procedures used by more experienced utilities. IIEC asserts those simple steps could cure many of the cost allocation deficiencies remaining in ComEd's flawed primary/secondary analysis. IIEC argues that such failures, established by the evidence of record, suggest strongly that ComEd gave higher priority to preserving the bulk of its original ECOSS than to responding seriously to the Commission finding that ComEd's ECOSS "is deficient in not separating and properly allocating primary and secondary service costs." *Docket 07-0566*, Order at 207.

IIEC finds the major deficiency in ComEd's Revised ECOSS is due principally to the fact that its primary/secondary analysis does not distinguish the costs of serving customers at primary voltages from the costs of serving customers at secondary voltages. IIEC points out that under ComEd's approach, the fundamental task of identifying the costs of primary and secondary service is largely a matter of definition. Further, IIEC asserts that ComEd's arbitrary definitions do not consider the functions of the various facilities that make up its distribution system, or of other costs it incurs to serve customers at primary or secondary voltages. IIEC believes that rather, ComEd has relied upon an arbitrary, inconsistently applied definition of its primary system facilities as the root determinant of the costs of service to primary and secondary customers.

Citing existing tariff provisions, ComEd witness Alongi testified that ComEd defines its primary system as follows:

> The Company's primary distribution system utilizes electric facilities to distribute electricity at the following common nominal voltages: 4,000 volts, 12,000 volts, and/or 34,500 volts. However, in certain individual situations, the Company's primary distribution system utilizes electric facilities to distribute electricity at 69,000 volts, 138,000 volts, or 345,000 volts, if the Company determines that distribution at such nominal voltage is more economical, efficient, or reliable than distribution at a voltage listed in the first sentence of this paragraph.

ComEd. Ex. 6.0 at 9. IIEC asserts that in ComEd's primary/secondary analysis, costs associated with facilities that are energized at primary voltage are deemed costs of primary service, regardless of the function they perform, the service they are used to provide or the customers they serve. ComEd's secondary system, and its secondary costs of service, are those facilities and costs not categorized (by definition) as primary. ComEd defines secondary customers as primary customers because they "bypass" its defined secondary system. IIEC points out that ComEd's stated objective was to "assign[] costs associated with the secondary distribution system to customers that take service from the secondary distribution system," as ComEd defines it. *Id.* at 8.

IIEC finds, however, there are notable deviations from ComEd's supposedly straight-forward, tariffed definition of its primary system. Indeed, in its reply brief, IIEC pointed out that ComEd's definitional approach is inconsistent with the functional categorization of its own tariff. Mr. Alongi testified, with respect to a particularly consequential deviation from the tariffed definition that "ComEd used the simple guiding principle that the assignment of a transformer to primary versus secondary is determined by the voltage of the source side of the transformer, not the load side of the transformer," even though such transformers are not "utilized to distribute electricity at common nominal voltages: 4,000 volts, 12,000 volts, and 34,500" or at higher voltages." *Id.* at 9, 10. IIEC accepts the "principle" is indeed simple, but IIEC finds it ignores cost causation and is inconsistent with functionalization of its transmission and distribution system.

IIEC says that ComEd's arbitrary deviation from its claimed voltage-based definition, underlies the ECOSS' treatment of the cost of line transformers used to reduce voltage to below 4 kV. IIEC finds this to be is one of the most egregious examples of the distortions that arise from ComEd's definitional (as opposed to functional) approach to identifying the cost of primary and secondary costs of service. Despite the fact that such line transformers are needed and used only for service to secondary voltage customers (taking service at less than 4 kV) -- and ComEd assigns 100% of those facilities and costs to primary and allocates the costs among all customers accordingly. *See* IIEC Ex. 2.0 at 19. IIEC believes that assigning cost responsibility without regard to whether the facilities and costs are needed to serve primary customers or secondary customers violates the Commission's "explicit policy objective of assigning costs where they belong." *Docket 07-0566,* Order at 206. IIEC finds that ComEd's approach also yields other nonsensical results. For example, IIEC notes that in ComEd's primary/secondary analysis: (i) almost half of ComEd's non-secondary (primary) customers are (according to ComEd) members of a residential class, (ii) customers who take service at secondary voltages can be categorized as primary customers; and (iii) the border between ComEd's primary and secondary distribution systems is at a point where facilities on both sides operate at secondary voltage. ComEd Ex. 6.0 at 16; ComEd Ex. 10.0C at 5-6; IIEC Ex. 2.0 at 7 *quoting* ComEd Ex. 2.2 at 6, Table 5; Tr. at 486.

As IIEC detailed, IIEC asserted that more work is needed before ComEd's ECOSS truly reflects the costs of serving primary voltage and secondary voltage

customers. IIEC has determined the Commission should find that ComEd's ECOSS and the primary/secondary analysis it incorporates do not "cure the deficiencies" the Commission identified and that it remains unsuitable for modifying rates in this case.

2. IIEC Proposed Modifications to the ECOSS

IIEC states ComEd has failed to respond seriously to the Commission's directive to properly separate and allocate primary and secondary service costs. IIEC Ex. 2.0 at 13. IIEC points out that in the primary/secondary analysis incorporated in its ECOSS, ComEd ignored the requirements of the Initiating Order and of cost causation principles. IIEC says ComEd limited its objective to separating its facilities costs into primary and secondary level baskets, making "the unsubstantiated assumption that voltage level equates to cost responsibility, i.e., that facilities operating below 4 kV are used exclusively to serve secondary customers, while facilities operating above 4 kV serve all customers equally." IIEC Ex. 2.0 at 13, 15. This is an erroneous assumption, IIEC contends, as revealed by ComEd's response to an IIEC Data Request that acknowledged that ComEd allocates to primary customers the costs of primary voltage facilities that are used exclusively to serve secondary customers. IIEC Ex. 2.0 at 15. That erroneous assumption substantially overstates the cost responsibility of primary customers. IIEC finds ComEd's objective was "very different from the objective of determining the costs of serving primary and secondary customers." *Id.* at 13. IIEC says ComEd's primary/secondary analysis is based on these fundamental errors in objective and causation.

IIEC's cost of service expert, Mr. Stowe, who has performed such studies in the past, examined ComEd's primary/secondary analysis in detail and identified its major deficiencies. IIEC also recommended corrective actions the Commission should order ComEd to take to correct or mitigate the principal deficiencies IIEC witness Stowe found. *See generally* IIEC Ex. 2.0, IIEC Ex. 4.0. Mr. Stowe's recommendations and the flaws they address are discussed below, beginning with the conceptual shortcomings of ComEd's primary/secondary analysis, then moving through its mechanical missteps.

IIEC states that ComEd's primary/secondary analysis focuses on defining facilities as either primary or secondary. IIEC finds ComEd's cost categorizations are based on inconsistently applied voltage distinctions (*contrast* IIEC Ex. 2.0 at 11 and IIEC Ex. 4.0 at 13), an arbitrary "guiding principle" (ComEd Ex. 6.0 at 10), and engineering judgments that lack record support or are contradicted by, *inter alia*, the utility's own data (*e.g.,* IIEC Ex. 2.0 at 19). IIEC finds that the bases for ComEd's categorization of its distribution system costs do not include either the function of the facilities or whether they are used in providing primary service or secondary service. IIEC cites the testimony of Mr. Stowe which says:

> Mr. Alongi's limited objective of determining the cost of equipment operating at primary and secondary voltages is very different from the objective of determining the costs of serving primary and secondary customers. The first

> objective focuses on cost of equipment above and below an operating voltage threshold, regardless of the customers served by that equipment, while the second objective focuses on the actual costs incurred to serve particular customers, regardless of the voltage level of the facilities providing service.

IIEC Ex. 2.0 at 13.

IIEC finds that the entirety of ComEd's primary/secondary analysis rests on this seminal definitional exercise. IIEC argues, though facilities are purportedly categorized as primary or secondary based on the voltage level at which they operate, line transformers, line transformer taps, line transformer attachments, grounding wires, *inter alia*, are simply defined out of ComEd's secondary distribution system. As a result, IIEC says that even though ComEd's data show that approximately 90% of its line transformers were purchased to reduce the voltage of electricity to provide service at secondary voltage levels, 100% of its transformer-related distribution costs are assigned to primary. IIEC Ex. 2.0 at 19. Similarly, IIEC points out that grounding wires, which are used on primary and secondary systems alike, are assigned solely to primary. Tr. at 583-584; ComEd Ex. 1.5. IIEC says using its definitions of the primary and secondary distribution systems, ComEd defines a primary customer as one that "bypasses" the secondary distribution system, even if the customer is served at secondary voltage. IIEC says the remaining customers on ComEd's distribution system are its secondary customers. ComEd Ex. 6.0 at 10.

IIEC contends that a properly conducted primary/secondary analysis can distinguish the costs of serving secondary voltage customers from those incurred to serve primary voltage customers. IIEC notes that in a proper analysis, "the secondary distribution system is the portion of the distribution system that operates at secondary voltage levels and is necessary for the distribution of electricity to customers who take service at those voltage levels." IIEC Ex. 4.0 at 7. Logically, IIEC says these customers would be the secondary voltage customers. Primary distribution facilities and primary voltage customers would be similarly (logically) identified. IIEC asserts that such a proper analysis would, for example, assure that primary voltage customers, who receive service prior to its transformation and do not use distribution system facilities that operate at secondary voltages, are not allocated costs of transformation or of facilities that operate at secondary voltages. IIEC contends that ComEd's primary/secondary analysis makes no attempt to assure that such costs follow their function or causation. IIEC Ex. 2.0 at 249 ("The most egregious error is that ComEd's analysis does not attempt to identify the cost of serving secondary and primary customers."). Instead, IIEC finds ComEd indulges its preference for definitions over function in the assignment of these costs to primary or secondary.

IIEC says that ComEd extends its definitional approach to the separation and allocation of primary and secondary costs by impressing its size-based customer class definitions on top of its facilities definitions. Together, those definitions constitute

ComEd's cost allocation methodology. All cost allocation determinations are made at the level of ComEd's size-based customer classes. Tr. at 354-355. IIEC contends that ComEd assumes that each class of customers uses the secondary distribution system in proportion to its total demand -- not just the demand attributable to service provided at secondary voltages. Tr. at 372-373.

IIEC argues that ComEd's analysis does not address the basic ECOSS deficiencies the Commission identified when it examined ComEd's ECOSS in *Docket 07-0566*.

> This failure of the ECOSS to separate costs results in customers who only take service at primary voltages paying substantial amounts of secondary distribution costs attributable to other customer classes.

Docket 07-0566, Order at 206. IIEC states that, despite the language of the Order in *Docket 07-0566*, at no point does the function performed or the customers served by particular facilities or incurred costs -- or cost causation in any other form -- take the lead role in ComEd's primary/ secondary analysis.

IIEC points out that ComEd vigorously defends its decision not to conduct a functional, cost causation focused approach to identifying and separating the costs of primary and secondary distribution service in its primary/secondary analysis. IIEC observes that ostensibly, ComEd's opposition is based on its lack of sufficient accounting data to conduct the primary/secondary analysis properly and on its position that the costs of alternative data collection or estimation processes to permit proper allocations outweigh the benefits of tracking cost causation. ComEd Ex. 10.0C at 7. IIEC finds ComEd's conclusion to be wrong. IIEC notes that ComEd uses just such a functional approach when identifying and separating its transmission and distribution costs. IIEC points out that the transmission/distribution functionalization does not rely on accounting data, but rather on an examination of the functions of the facilities and costs being categorized. IIEC notes that the transmission/distribution functionalization process is a model for what ComEd could do for distribution costs. *See generally* IIEC Ex. 5.0. IIEC finds that ComEd's opposition seems to be tied to the perceived inconvenience of categorizing assets in a manner different from its traditional accounting -- though ComEd does not deny that it could modify its approach if so directed. ComEd questions only the cost-benefit balance of doing so. ComEd Ex. 10.0C at 7.

IIEC also identified a slate of costing practices used by utilities with experience performing primary/secondary analyses (and to a limited extent by ComEd in its primary/secondary analysis) it asserts permit more appropriate cost allocations and that are practicable. Moreover IIEC points out that, ComEd's definitional primary/secondary analysis is fundamentally at odds with the functional (cost causation) approach ComEd already uses to separate and assign transmission and distribution costs, and with the Commission's directive. IIEC Ex. 5.0 at 4; Initiating Order at 2.

IIEC witness Stowe's functional look at ComEd's distribution system revealed three distinct categories of facilities and costs (primary, secondary and general sub-systems) that are identified in his testimony. *See* IIEC Ex. 2.0 at 4. IIEC points out that more refined separation of distribution costs, by itself, could do much to prevent "customers who only take service at primary voltages paying substantial amounts of secondary distribution costs attributable to other customer classes." *Docket 07-0566*, Order at 206. IIEC finds that Mr. Stowe's testimony and ComEd's revised allocations based on record or visual sampling demonstrate that such a separation of costs can be accomplished without great expense.

IIEC asserts that had ComEd performed a functional identification and separation of primary and secondary distribution costs in its primary/secondary analysis, the ECOSS could have been easily modified to incorporate the allocation of costs based on causation. IIEC notes ComEd's cost of service study expert (Alan Heintz) testified that his ECOSS calculations could have accommodated primary and secondary distribution costs split by function or costs split by percentages reflecting relative usage -- had ComEd provided them. IIEC points out that in the ECOSS he presented, however, Mr. Heintz relied entirely on the primary/secondary analysis of ComEd, performing no validation checks of the primary and secondary cost splits ComEd provided. Tr. at 363-364.

IIEC says ComEd appears to assume (implicitly if not explicitly) that it is enough that its deviation from cost causation is "systematic". ComEd Ex. 7.0 at 5. However, IIEC argues the magnitude of the mis-allocated costs affected by its improper separation of facilities costs belie any supposition that substituting definitions for separation and allocation based on cost causation is insignificant. IIEC witness Mr. Stowe noted, for instance, that the mis-assignment of the costs of line transformers -- which function principally as secondary (as nearly 90% provide service only at secondary voltages), but are primary by definition in ComEd's primary/secondary analysis -- is about $903 million. IIEC Ex. 2.0 at 19. IIEC points out that other transformer related facilities, equipment, and costs are mis-assigned in tandem, with an additional $386.6 million impact on primary customers. *Id.* at 18.

IIEC concludes that because ComEd's primary/secondary analysis fails to consider the function and cost causation of the elements of its distribution system, relying on arbitrary definitions to identify the facilities that are to be in the primary and secondary systems, the primary/secondary analysis in this case remains deficient.

Based on IIEC's review of data provided by ComEd, IIEC witness Stowe described the Company's distribution system as being composed of three separate distribution sub-systems ("secondary," "primary," and "general") with distinctive cost causation attributes. The secondary distribution sub-system, functionally determined by IIEC witness Mr. Stowe, distributes electricity exclusively to secondary customers, those receiving service at secondary voltages. IIEC Ex. 2.0 at 4. IIEC says the secondary system is composed of multi-phase primary feeder circuits, single-phase

primary lateral circuits, and the extensive network of conductors and cables that operate at secondary voltage levels. IIEC notes that one characteristic that distinguishes the secondary distribution sub-system from the other two is that it consists of both primary and secondary voltage circuits, yet serves only secondary customers. *Id.* at 8. IIEC notes that some facilities that may be energized at primary voltage levels, are used exclusively to serve secondary customers. *Id.* at 8. In contrast, IIEC finds what ComEd refers to as its "secondary system" consists only of the network of conductors and cables that connect to the Leads from the secondary side of a line transformer, and extend from pole-to-pole or underground from pad mounted transformer to pedestal, not all of the components necessary for providing service at secondary voltages. *Id.* at 9.

Similarly, the primary distribution sub-system, functionally determined by IIEC witness Mr. Stowe, distributes electricity exclusively to primary customers, those taking service at primary voltages. IIEC points out that the distinguishing characteristic of this sub-system is that it consists of primary voltage circuits that serve only primary customers. *Id.* at 4, 10. IIEC notes that the "general distribution sub-system," as functionally determined by IIEC witness Mr. Stowe, serves both primary and secondary customers. *Id*. IIEC suggests an example would be the "community transformers" described in Table S1 of the surrebuttal testimony of ComEd witness Alongi. ComEd Ex. 10.0C at 12.

IIEC believes that customers who do not receive any benefit from a particular distribution sub-system and do not cause any of that sub-system's costs to be incurred, should not be allocated any of its costs. However, IIEC notes that ComEd's definition-based primary/secondary analysis does not prevent such misallocations of distribution costs. *See, e.g.*, IIEC Ex. 4.0 at 2-3; Tr. at 364-365; Tr. at 479-480.

IIEC contends that ComEd's primary/secondary analysis categorizes, by definition, certain facilities as primary distribution facilities even though they are used exclusively to provide service at secondary voltages -- line transformers and single-phase primary voltage level circuits, in particular. IIEC finds the ComEd categorization is not only unreasonable, but conceptually inconsistent with the tariff the utility cites as support. IIEC notes that pursuant to the seven-factor test established by the Federal Energy Regulatory Commission's Order No. 888, a distinct set of guidelines developed in cooperation with other Illinois utilities ("Whitepaper Regarding General Guidelines for Delineation of Transmission and Local Distribution Facilities"), and a more detailed set of procedures ComEd developed for its system, ComEd determines the transmission and distribution portions of its delivery system on a functional basis. *Id.* at 5-6. IIEC points out that in its primary/secondary analysis, ComEd assigns line transformers and transformer-related facilities and equipment to primary instead of secondary. IIEC notes that the assignment is based on the voltage of the source (high) side of the transformer and ignores the load side voltage from which service is provided. ComEd Ex. 6.0 at 10; IIEC Ex. 2.0 at 17-18. IIEC argues that the functionalization of transmission-distribution transformers and related facilities differs from the line transformers situation only in the voltage levels of the facilities. Yet, IIEC notes that ComEd did not automatically categorize transformers with a transmission level high side voltage as transmission

facilities. IIEC points out that even where the input voltage of facilities was at transmission levels, the facilities were not functionalized as transmission because they were not used to provide service to transmission customers, but rather to distribution customers. IIEC Ex. 5.0 at 6. IIEC says that when such facilities served other transmission facilities or upstream generation facilities, they were functionalized as transmission. IIEC says facilities were consistently categorized on the basis of their function, not their labels. *Id.* at 6.

As ComEd recognized in the Commission docket considering approval of its functionalization process, the reason for this function-based categorization of facilities and costs is to ensure that customers will be appropriately charged for the use of those assets necessary to provide the services they are using, but not for the use of other assets not required to provide the customers' service. *Id.* at 7. IIEC says this is essentially the goal in this case as well.

IIEC argues that under a consistent application of the principles used to split its transmission and distribution facilities, ComEd's primary/secondary analysis would also split facilities on function. IIEC asserts that facilities used to deliver electricity to customers at primary voltages would be categorized as primary, and those used to meet secondary voltage level customer demands would be categorized as secondary. IIEC contends that function and cost causation, not arbitrary definitions, would determine the categorization of facilities and costs for rate setting purposes.

In its brief, IIEC reviews a number of the significant flaws in ComEd's primary/ secondary analysis. IIEC points out that each flaw contributes to the ECOSS' continued status as problematic for setting rates. IIEC posits that these problems would be eliminated or mitigated if the Commission orders ComEd to implement a functional (cost causation) separation and allocation of primary and secondary costs. That is, according to IIEC, the correct, and IIEC's preferred, remedy. However, IIEC also identified "patches" to correct -- on an interim basis -- the problems arising from ComEd's use of a definitional primary/secondary split as a substitute for cost allocations based on cost causation. IIEC states that if the Commission decides that less than comprehensive corrections to ComEd's primary/secondary analysis are appropriate at this point in ComEd's development of a proper study, it should order application of the "patches" IIEC has identified.

Secondary Line Transformers and Taps. IIEC notes that for purposes of ComEd's primary/secondary analysis line transformers and related equipment are defined out of the secondary system. IIEC says that ComEd assigns to the primary sub-system the cost of transformers and equipment with the principal (if not sole) function of reducing primary voltage to a secondary voltage to provide electricity to customers at secondary voltages. IIEC Ex. 2.0 at 18. IIEC argues that whether ComEd decides, for its own reasons, to provide service at secondary voltage through a line transformer (and short tap wires), which ComEd considered "bypass" of secondary facilities, or through a transformer (and tap wires) plus any length of secondary

distribution line or cable, should not determine whether a customer is a primary or a secondary customer. IIEC Ex. 5.0 at 5; IIEC Ex. 4.0 at 6.

As IIEC witness Stowe discusses in his rebuttal testimony, a very short length of line or cable operating at a secondary voltage is always needed between a primary-to-secondary line transformer and a customer's service drop. IIEC Ex. 5.0 at 3, fn.3. However, IIEC notes that ComEd's decision to define secondary voltage taps (i.e., the short wires attached to the low voltage side of the primary-to-secondary line transformer) out of the secondary distribution system creates primary customers who are actually served at secondary voltage. IIEC points out that it also means that the dividing point between ComEd's primary and secondary systems is at a point where the facilities above and below the demarcation point both operate at a secondary voltage. IIEC argues these are results of ComEd's elevation of its arbitrary definitions over function and cost causation principles in its ECOSS.

IIEC says that if the Commission orders only interim primary/secondary study fixes, Staff's cost expert, Peter Lazare, described an appropriate interim corrective measure for the treatment of line transformers (and possibly transformer-related facilities and equipment). Line transformer costs, according to IIEC, should not be allocated to customers taking service at primary voltages. Tr. at 489. IIEC notes that Staff witness Lazare agreed that "any customer receiving service at the primary level should not have to pay for any of the transformer costs that transform electricity from primary to secondary levels." Tr. at 489.

IIEC argues that ComEd's primary/ secondary analysis assigns to primary customers the costs of lateral primary circuits that are used exclusively to serve secondary customers. IIEC Ex. 2.0 at 14-15.

IIEC contends that customers taking service at primary voltages are assigned those costs simply because ComEd labels all such facilities as primary. Though single-phase radials operate at primary voltages, only single-phase facility users -- all of whom take service at secondary voltages -- can benefit from these facilities. IIEC believes these facilities should be assigned to secondary,

IIEC argues that this misassignment can be remedied on an interim basis simply by recognizing obvious cost causation facts and discarding ComEd's arbitrary definition as the determinant of cost assignment. IIEC contends the costs of these readily identified facilities should be assigned to the costs of secondary service. IIEC witness Stowe answered ComEd's concern about the cost of identifying such facilities and costs by identifying a slate of specific practicable approaches stating:.

> A variety of methods exist, yet most of these employ a combination of the following: (1) a thorough review of the Company's plant and accounting records, (2) a review of distribution system maps, electric diagrams, or a geographic information system ("GIS"), (3) systematic field audits

> (including field surveys and sampling) to confirm the validity of the records, and (4) estimates derived from experience and engineering judgment.

IIEC Ex. 2.0 at 24.

IIEC asserts that ComEd makes an unwarranted assumption of equal cost responsibility across all classes of customers. ComEd's customer classes are defined on the basis of customer size (demand), not the cost causation characteristics of its members. The non-coincident peak demand of each class is assumed to capture the class' use of line transformers, for example, without regard to the distribution of primary and secondary service across the classes. Tr. at 354-355; IIEC Ex. 2.0 at 18. IIEC says this allocation ignores the fact that 90% of these transformers are used to serve customers at secondary voltages. IIEC Ex. 2.0 at 18, 19.

IIEC suggests that an interim fix would require only that ComEd adjust its allocation factors to recognize the ratio of primary to secondary demand for customer classes. IIEC provides an example, noting a class with 60% of its total non-coincident peak demand attributable to service at secondary voltages would have line transformer costs allocated to the class on the basis of that 60%. The remaining 40% of total demand attributable to primary voltage service would not be burdened by an allocation of secondary costs not used to provide primary service. IIEC notes that ComEd's cost of service expert, Mr. Heintz, confirmed that the ECOSS could handle the more refined costs this process would produce. Tr. at 363-364.

IIEC argues that ComEd did not account for the fact that many of its area and underground circuits operating at primary voltage serve customers at secondary voltages. IIEC Ex. 2.0 at 21. IIEC points out these costs are properly included in the cost of providing secondary service, but ComEd has assumed that 100% of the cost of these facilities were incurred to serve both customers at both primary and secondary voltages. *Id*. at 21. IIEC points out that ComEd admits that although it has methods available to identify customers that are served at primary voltage levels, it has not done so for purposes of its primary/secondary analysis. Tr. at 574-576. IIEC states that, although ComEd recognized that certain types of distribution equipment are used exclusively in the secondary distribution system as ComEd defines it, *e.g.*, grounding conductors, ComEd nonetheless assigned 100% of the cost of these facilities to primary distribution system costs and none to the secondary system costs. Tr. at 583-585. IIEC avers that ComEd's ECOSS does nothing to prevent such costs, incurred to serve customers at secondary voltages, from being allocated to customers provided service at primary voltages. Tr. at 364-365; Tr. at 479-480.

IIEC notes that in response to criticisms from other parties about assumptions incorporated in its ECOSS, ComEd conducted limited sampling exercises to check its engineering judgments. IIEC points out that those modest exercises led to revisions in ComEd's cost allocations. However, IIEC notes that such modest validation efforts were not, in general, part of ComEd's primary/secondary analysis. IIEC says that in the

absence of a cost causative primary/secondary analysis, such "reality checks" on ComEd's many exercises of engineering judgment could mitigate the magnitude of ComEd's misallocations of primary and secondary distribution service costs. IIEC points out that as Staff witness Lazare observed, after reviewing ComEd's revisions to some of its cost allocation assumptions, there is a clear need to expand the scope of visual inspections to test those such engineering judgments. Staff Ex. 2.0 at 19. IIEC suggests that more refined cost estimates also could be produced through records review, sampling, or other estimation processes like those ComEd used in modifying its original cost allocations for Account 361, cable in conduit, and wood poles.

3. IIEC Argues ComEd's ECOSS Over-Allocates Costs to Primary Distribution Service

IIEC asserts that in a number of instances, ComEd's use of definitions as a substitute for functional allocations of costs of service misassigns and over-allocates costs to primary service customers. IIEC says that ComEd's primary/secondary analysis assumes that certain facilities, such as single and multi-phase primary circuits, serve both primary and secondary customers, even though these facilities actually serve only secondary customers. IIEC Ex. 2.0 at 21. IIEC points out that ComEd admitted that even in its revised ECOSS, there are customers that do not use secondary facilities but are allocated the costs of facilities they do not use. *See, e.g.*, Tr. at 583-585.

IIEC notes that the revenue requirement results of IIEC witness Stowe's revisions to ComEd's primary/secondary analysis, which used functional definitions of primary and secondary customers and distribution costs, were provided in IIEC Exhibit 2.5. Exhibit 2.5 is based on the corrections to the primary/secondary analysis he made in his direct testimony. IIEC Ex. 2.0 at 29-30. Mr. Stowe's corrections do not complete the process of differentiating the impact of primary and secondary facilities on customers rates. *Id*. at 28-29. IIEC's Exhibit 2.5 shows that a properly revised primary/secondary analysis would relieve primary service customers of at least $80 million in secondary distribution system revenue requirements. However, IIEC points out that the constrained modifications of ComEd's updated analysis result in only $36 million in revenue requirement being re-allocated to secondary voltage level service. An additional $44 million ($80 million less $36 million) would be re-allocated if the modifications to ComEd's primary/secondary analysis that IIEC witness Mr. Stowe recommends were implemented.

IIEC recognizes that ComEd has taken a small, incremental step, to cure the deficiency in its ECOSS associated with its failure to identify the costs of serving primary customers and the costs of serving secondary customers. However, IIEC contends ComEd has not taken all practicable steps to cure this deficiency.

IIEC provides an example, in the case of primary circuits (single phase and multi-phase) on ComEd's distribution system, ComEd has failed to account for the fact that many of these circuits are used exclusively to serve secondary customers. IIEC Ex. 2.0

at 21. IIEC suggests that ComEd's analysis assumes that every primary circuit is used to serve both primary and secondary customers. *Id.* Thus, IIEC points out that primary customers are allocated the costs of facilities (primary circuits) that are used exclusively to serve secondary customers. *Id.* IIEC says that ComEd claimed that in order to estimate the cost of the primary circuits used to serve secondary customers, a time consuming and costly special study would be required. *Id.* at 22.

However, IIEC witness Stowe explained that there are reasonable alternatives to estimating the cost of primary circuits (single phase and multi-phase) used to serve only secondary customers. *Id*. at 23-24. IIEC notes that had ComEd elected to implement these practical alternative methods, it would have been able to estimate the cost of primary lines (single phase and multi-phase) used to serve secondary customers. IIEC witness Stowe indicated there were several methods available to ComEd to estimate these costs. IIEC explains that most of these methods employ a combination of (i) review of the utility's plant and accounting records, (ii) review of utility distribution system maps, electric diagrams, or a geographic information system, (iii) systematic field audits to confirm the validity of records, and (iv) estimates derived from experience and engineering judgment. *Id*. at 24.

One of the methods IIEC witness Stowe described was identified as the four step method. A second method of estimating the cost of primary lines, used to serve only secondary customers, as noted by IIEC involves identifying the cost of single phase primary circuits from the utility's records. IIEC says this is known as the single phase method. These methods are described in its briefs.

IIEC argues that these two methods (the four step method and the single phase method) are obviously practical methods for determining or estimating the cost of primary lines used to serve secondary customers. IIEC points out that ComEd itself uses the first method in its primary/secondary analysis in this case, and all of the utilities reviewed by Mr. Stowe used it as well. IIEC notes at least two of the utilities reviewed by Mr. Stowe use the single phase method to estimate the cost of the primary (single phase) circuits used to serve secondary customers. *Id*. at 26.

In addition, IIEC argues ComEd could also have easily recognized that approximately 90% of its line transformers are used exclusively to provide service to secondary customers. *Id*. at 19. Estimating these line transformer costs would not be difficult. IIEC points out that data provided by ComEd establishes that $903 million of the $1.017 billion in line transformer costs, in FERC Account 368 - Line Transformers, is associated with transformers that serve a secondary voltage. IIEC states that ignoring this useful information, ComEd elected to allocate 100% of line transformers as if this equipment was used exclusively to serve primary customers. *Id*. at 19. IIEC points out that ComEd also allocates the cost of equipment associated with these transformers, totaling approximately $383.6 million, on essentially the same basis. *Id*. at 18.

Furthermore, IIEC says that ComEd could have, as it did in the performance of major elements of its primary/secondary analysis in this case, used engineering

judgment and sampling to estimate these costs. *See* ComEd Ex. 6.0 at 24-26, discussing the use of these techniques in the limited primary/secondary analysis conducted in this case.

Instead, as noted above, ComEd elected to use an arbitrary definition of the secondary system to differentiate between primary and secondary costs, without regard to the function of the facilities and equipment used to serve secondary customers and primary customers. IIEC contends ComEd simply assigns these costs to primary customers and secondary customers on the basis of that arbitrary definition.

IIEC notes that ComEd claims that it would be too difficult or expensive to properly estimate the cost of serving primary and secondary customers and that the necessary data was not available to permit such an estimate. However, as IIEC has stated, application of the practicable methods described above would have permitted ComEd to largely (though not completely) cure a major deficiency in its ECOSS, as directed by the Commission.

IIEC notes that the separation and allocation of the distinct costs of providing primary and secondary service that ComEd presents in this case is the utility's first-ever attempt to perform such a study. IIEC Ex. 2.0 at 28. However, IIEC points out that many other utilities have more experience in performing such studies. *Id.* at 28. IIEC witness Stowe has personally conducted more primary/secondary analyses for cost of service studies than ComEd has. *Id.* at 27. IIEC witness Stowe compiled and presented data on the results of the primary/secondary analyses performed by 11 other electric companies operating in Midwestern states, including Illinois. *Id.* at 26. IIEC witness Stowe was careful to note, the relationships he reported do not confirm either the quality or the accuracy of other utilities' studies. *Id.* at 28. However, IIEC argues while the results of those eleven other utility studies are not a substitute for a study of ComEd's system and costs of service, there are lessons that can be taken from the analyses of utilities with more experience in performing such studies.

IIEC has compared the results of ComEd's primary/secondary analysis results with results from the 12 other electric companies. IIEC Exhibit 4.3 shows that ComEd allocates 86.3% of the total balance from FERC Accounts 364 through 367 to primary and secondary customers, with the remaining 13.7% of the combined balance allocated to secondary customers alone. That is a much higher percentage allocated to primary and secondary customers than any of the other utilities examined. IIEC argues that such results suggest strongly that ComEd's analysis should be carefully checked and its underlying assumptions validated. *See* IIEC Ex. 2.0 at 27-28; IIEC Ex. 4.0 at 28. IIEC points out that electric companies with experience in performing primary/secondary analyses have consistently larger allocations to secondary customers alone. *Id.* at 28.

The substantive analyses (not comparisons to other utility results) of IIEC and other parties have shown that ComEd fails to recognize that many of its costs are incurred to install and maintain components that operate at primary voltage levels yet serve only secondary customers. Because of this, IIEC asserts, ComEd's analysis mis-

identifies costs that are incurred to provide service exclusively to secondary customers, as costs incurred to provide service to both primary and secondary customers. This assessment is consistent with the comparative indicators from Mr. Stowe's bench-marking exercise. IIEC argues that ComEd's error results in a significant overstatement of primary customer costs. IIEC Ex. 2.0 at 28-29.

Though ComEd has taken steps toward an improved ECOSS, IIEC argues that its first attempt at an accurate separation and allocation of primary and secondary distribution service costs show its inexperience. According to IIEC, ComEd also has demonstrated more than a little reluctance to change or to learn from more experienced utilities even though the Commission has expressly ordered it to change. Until ComEd does more, its still deficient primary/secondary analysis should not be used to set rates for ComEd customers.

4. Results of IIEC's Modifications

IIEC's analysis shows that Distribution Facilities Charges in ComEd's current rates would decline from: $5.67/kW to $4.68/kW for the Medium Load Delivery Service Class, $6.04/kW to $4.66/kW for the Large Load Delivery Class, $5.71/kW to $4.43/kW for the Very Large Load Delivery Class, $3.28/kW to $2.96/kW for the Extra Large Load Delivery Class, $3.17/kW to $2.83/kW for the Railroad Delivery Class, and $2.87/kW to $2.79/kW for the High Voltage Delivery Class. At the same time, the increase to smaller rate classes would be relatively modest - measured in mills per kWh. *See* IIEC Ex. 3.1 at 1-2. The rate impact analysis presented by IIEC does not assume any change in ComEd's basic ECOSS methodology for the rate design approved by the Commission in *Docket 07-0566*. IIEC Ex. 1.0 at 6.

The IIEC analysis does not fully reflect the difference in cost of service, of primary customers and secondary customers, revealed by its modifications to the ComEd primary/secondary analysis. *Id*. at 6. This is because ComEd's rate class definitions do not generally account for voltage differences on a direct basis, with the exception of the High Voltage Rate Class (69 kV and above). *Id*. IIEC notes that ComEd's current rates are based largely on the demand levels of the customers in a rate class, without explicit voltage differentiation for the majority of customers taking service at less than 69 kV. IIEC points out that it is this group of customers that is most affected by the primary/secondary analysis in this case. *Id* at 6-7.

IIEC contends this lack of voltage differentiation does not affect all customer classes equally. Some customer classes are predominantly or exclusively made up of customers who take service either at primary voltage or secondary voltage. However, some customer classes include both primary and secondary customers, and under ComEd's rate structure all customers in a class pay the same rates (with the exception of the High Voltage Class). As a result, the cost of service differences between primary and secondary customers, identified in IIEC's modified primary/secondary analysis, cannot be fully reflected in rates. *Id.* at 7.

IIEC suggests it is not saying that the Commission cannot implement the results of a correct primary/secondary analysis under the current rate structure. Rather, IIEC contends that the information learned in the ECOSS analysis can be more fully used and rate equity can be more fully realized if there were to be voltage differentiated rates.

While IIEC has not proposed a modification of ComEd's rate structure in the context of this case, it has recommended that the Commission consider the possibility of such a modification in a future case. IIEC Ex. 1.0 at 8-9. It is not necessary that the Commission make such a modification in this case in order to implement modifications of the ComEd primary/secondary analysis suggested by IIEC. *Id*. at 8-9.

5. IIEC's "Corrections" to ComEd's Primary/Secondary Analysis

IIEC states that the Commission should order ComEd to logically define secondary customers as those that take service at secondary voltage and primary customers as those that take service at primary voltage. IIEC argues that ComEd should then be required to conduct its primary/secondary analysis to identify the facilities and components of its distribution system that are used to serve these types of customers regardless of the voltage level at which the facilities or components may be energized.

IIEC also argues ComEd's primary/secondary analysis in this case can and should be modified in several respects. IIEC's recommended list of modifications is not intended to be a representation of the universe of modifications that could or should be made to the ComEd primary/secondary analysis. Rather, they represent the first step in an evolution of the primary/secondary analysis that will occur over time.

IIEC points out that ComEd's analysis of FERC Account 368 - Line Transformers - showed that 88.8% of the account balance was incurred for transformers to step the voltage down to secondary levels. However, IIEC notes that within FERC Account 364, ComEd allocated 100% of "transformer mounting" costs to primary. IIEC argues ComEd's primary/secondary analysis should be corrected to allocate 88.8% of "transformer" mounting costs in FERC Account 364 to secondary. IIEC Ex. 2.0 at 29.

Also, IIEC points out that the primary and secondary systems within the City of Chicago are different than the primary and secondary systems in the suburbs and communities surrounding the City. IIEC notes that ComEd's primary/secondary analysis was inconsistent in recognizing this difference. As a result, ComEd assigned certain costs, incurred outside the City of Chicago, based on primary and secondary ratios developed for use inside the City of Chicago. To eliminate this error, IIEC suggests the costs in each ComEd FERC account should be grouped by location and components inside and outside the City should be separated. *Id*. at 29.

IIEC argues the four-step method should be used to allocate the costs of 4 kV and 12kV cable to primary and secondary customers. However, IIEC notes that a

separate four-step estimate should be made for components located inside the City and outside the City. *Id*. at 29.

IIEC argues that the four-step estimation method should also be used to allocate the costs of "switch cut-out/disconnects" and of bare, copper, single-conductor wire to primary and secondary, with a separate estimate for components located inside and outside Chicago. *Id.* at 29. IIEC witness Stowe made the changes described above and showed the effects of these adjustments in his direct testimony. *See* IIEC Ex. 2.0 at 30; IIEC Ex. 2.5.

IIEC argues ComEd should be directed to modify its primary/secondary analysis to allocate approximately 89% of the line transformer accounts in FERC Account 368 to secondary. IIEC points out that the evidence in this case shows that approximately 89% of the costs of these transformers was incurred for transformers used to serve secondary customers. However, IIEC notes that ComEd defined all primary to secondary line transformers as part of the primary system, even though 88.8% of their cost was incurred to provide service to secondary customers. IIEC Ex. 2.0 at 19.

Finally, IIEC argues ComEd's primary/secondary analysis should be modified to ensure that single-phase primary circuits are properly allocated to the customers they are designed to serve. *See* IIEC Ex. 4.0 at 27.

IIEC asks that the Commission adopt IIEC's recommendations to (i) require that primary and secondary customers be defined by the voltage at which they take service and (ii) to modify ComEd's primary/secondary analysis to correct the deficiencies identified by IIEC for all the reasons stated above.

D. CTA and Metra

The CTA and Metra jointly sponsored testimony by James Bachman. Mr. Bachman testified that ComEd's revised ECOSS is flawed because it failed to properly allocate costs between primary and secondary voltages, ComEd did not review other utilities' cost of service results for comparison purposes, and ComEd did not justify drawing the line between primary and secondary at the level it chose. As to the costs allocated to the Railroad Class, ComEd's revised ECOSS included charges for facilities that serve customers at 4 kV. The undisputed testimony in this docket is that the CTA's traction power substations are served at 12.5 kV and that ComEd's 4 kV facilities do not and cannot serve the CTA's traction power requirements. Mr. Alongi, ComEd's Manager of Rates, volunteered in cross examination that the ComEd 34.5 kV system primarily serves rural areas, which makes the allocation of the 34.5 kV system costs to the Railroad Class also inappropriate. As a result, it is improper to allocate any 4 kV costs (and possibly any 34.5 kV costs) to the Railroad Class.

Because the revised ECOSS does not accurately reflect the costs imposed on the ComEd system by customers, and in particular, fails to properly allocate costs to the Railroad Class, rates should not be adjusted at this time. Moreover, the CTA requested

that when ComEd revises its ECOSS again that any 4 kV facilities (and possibly the 34.5 kV facilities) be excluded from the allocation to the Railroad Class and that ComEd work with the Railroad Class to accomplish the proper cost allocation to the Railroad Class in a similar manner as was ordered by the Commission in the last rate case regarding the on-going load flow study. Staff further recommends that a workshop process be initiated in an attempt to solve some of the major deficiencies found in ComEd's revised ECOSS. If a workshop process as proposed by Staff is ordered, then the process should include excluding the 4 kV system (and possibly the 34.5 kV system) from costs allocated to the Railroad Class.

E. REACT

REACT has several concerns about the revised ECOSS' treatment of the primary secondary split issue. They include:

- ComEd's failure to review, or explain the reason for excluding, costs beyond four USOA accounts, in determining if other categories of costs contain any primary or secondary service costs, and whether those costs should also be allocated differently to account for the primary/secondary split, as ordered by the Commission. REACT Ex. 1.0 at 9-10.

- ComEd's assumptions, use of estimated data, and miniscule sample sizes to allocate primary and secondary costs, including the number of primary/secondary poles; percentage of primary overhead conductors and devices; percentage of secondary underground conduit within and outside the City of Chicago; and the assumption that non-unitized equipment assigned a specific address is primary. *Id.* at 13-15; REACT Ex. 3.0 at 4, 9, 13-14.

- ComEd's failure to review how line transformer costs are assigned, as recommended by Staff witness Lazare. REACT Ex. 3.0 at 16-17.

- The absence of a reassessment of cost allocations in Accounts 364 to 367 for High Voltage customers, in contradiction to the Commission's directive. REACT Ex. 1.0 at 10-11.

- The absence of any study by ComEd to determine what facilities are actually installed to serve over-10 MW customers. *Id.* at 11-12.

REACT wants several individual studies for Extra Large customers in order to more accurately determine cost causation. *See id.* at 17-18. REACT alleges the ECOSS assigns disproportionately high costs to the Extra Large customers. *Id.* at 20.

REACT recommends that the Commission: (1) reject ComEd's deficient ECOSS for purposes of setting rates for the over-10 MW customers (*Id.* at 6; REACT Ex. 3.0 at 5); (2) order ComEd to perform cost studies for Extra Large and High Voltage customers based on the facilities installed to serve those customers (REACT Ex. 1.0 at

6); and (3) consider engaging an independent company at ComEd's expense to develop an appropriate cost of service study. *Id.* at 6 and 22; REACT Ex. 3.0 at 5 and 22.

REACT also argues that ComEd has failed to analyze the primary/secondary split issue in a manner that provides the Commission with a basis to determine the cost of service to customers taking only primary service.

F. CG

The Commercial Group finds ComEd's Revised ECOSS to be a Significant Improvement Over Its Prior ECOSS. As the Commission has recognized, it is important to identify and functionalize costs associated with primary and secondary distribution facilities because customers who take service at the higher primary voltage levels do not utilize facilities that are designed to serve customers who receive service at the lower secondary voltage levels. The ECOSS filed in *Docket 07-0566* did not properly separate primary and secondary distribution costs, which resulted in excessive cost allocations to customers who receive service at the primary voltage level. CG Ex. 1.0 at 5. ComEd has revised this prior study, defining the demarcation between primary and secondary facilities based on its tariff, engineering practices and available data. ComEd Ex. 10.0 at 5. While this may not be the perfect approach, it is a reasonable approach. Formulation of a class cost of service study inevitably involves the use of informed judgment, as well as quantitative and technical analyses. Staff witness Lazare, having testified that any demarcation line will have "winners" and "losers" on either side of the line, also concluded that this is consistent with cost of service principles and that the ComEd approach is reasonable. Tr. 483-84. The Commercial Group recommends adoption of the Company's revised ECOSS, as improved through this case.

G. Kroger

Kroger urged the Commission to direct ComEd to incorporate cost differentiation between primary and secondary distribution system use in the ECOSS used in its next rate case.

H. Commission Analysis and Conclusions

In our Order in *Docket 07-0566*, the Commission found the failure to separate and properly allocate primary and secondary service costs to be a deficiency in ComEd's ECOSS. Our concern was that although the vast majority of ComEd's customers take service at lower voltages that utilize its extensive distribution system, a small number of customers take service at higher voltages that bypass significant portions of the distribution infrastructure. Their cost of service is therefore lower on a per kilowatt basis. The rates of these primary system customers should reflect this lower cost of service.

We agree with ComEd that the threshold issue in performing a primary/ secondary analysis is determining at what point it is reasonable, for cost allocation and

rate making purposes, to draw the line between primary and secondary facilities. ComEd's primary distribution system is defined in its tariffs as consisting of facilities used to distribute electricity at voltages 4kV or higher (phase-to-phase) and less than 69kV (phase-to-phase). The secondary distribution system is defined as consisting of facilities used to distribute electricity at voltages less than 4kV (phase-to-phase).

In its ECOSS, ComEd has identified its distribution costs as either primary or secondary. ComEd chose to consider primary customers as those receiving service directly, or through a transformer, between 4kv and 69kv. It then identified the customers in each of its delivery classes receiving service directly from the secondary distribution system, and those customers that utilize either a transformer receiving service at a primary voltage, or directly through the primary distribution system. ComEd contends that its analysis allowed it to assign what it perceives as appropriate amounts of secondary distribution system costs and primary distribution system costs incurred to serve customers in each delivery class.

ComEd's total investment in distribution facilities as of December 31, 2006 (the test year used in ComEd's 2007 Rate Case) is approximately $6.3 billion. Based upon ComEd's primary/secondary analysis, 13.5%, or $850 million, of this investment was assigned to the secondary distribution system. Incorporating the results of ComEd's revised primary/secondary analysis into the ECOSS shifts approximately $38 million of cost responsibility to the residential classes from other delivery classes. ComEd asserts that larger non-residential customers realize a reduction of more than $45 million in cost responsibility resulting from ComEd's revised primary/secondary analysis.

Staff raised an initial concern with whether 4 kV is the proper dividing line between primary and secondary service. Staff notes that the Company has presented a broad definition of primary service that reaches down to 4 kV and includes customers in all classes, even the residential class, based on a strained reading of tariff language.

The bottom line is that there is no hard and fast dividing line between primary and secondary voltages. The separation between the two is based on judgment. ComEd does not cite any general industry standard or principle behind its definitions which also suggests this is a matter of judgment.

IIEC notes that ComEd's analysis is nominally predicated on the definitions of primary and secondary service in its tariffs. It includes as primary customers those whose power is delivered to a transformer at voltages of 4kV or higher but distributed at far lower secondary voltages. This blurring of the line between primary and secondary service by ComEd is one of the principal areas of contention for IIEC, whose members do not wish to pay for that portion of the distribution system caused by these customers whose service is stepped down by transformers.

Metra and the CTA also argue that they should not be charged for 4kV service because the railroad class only takes service at 12.5kV. The CTA further contends that it should not be allocated any costs of ComEd's 34.5 kV primary distribution facilities,

which ComEd notes, suggests yet a further segmentation of ComEd's primary distribution system.

ComEd disagrees with claims that transformers should be classified as "secondary." ComEd states that virtually all of its customers require transformers for electric service. Consequently, there is no purpose in trying to categorize each of ComEd's 440,000 line transformers as either primary or secondary.

IIEC contends that ComEd's opposition is based on its lack of sufficient accounting data to conduct a more detailed primary/secondary analysis and on its position that the costs of alternative data collection or estimation processes to permit proper allocations outweigh the benefits of tracking cost causation. IIEC finds that ComEd's opposition seems to be tied to the perceived inconvenience of categorizing assets in a manner different from its traditional accounting -- though ComEd does not deny that it could modify its approach if so directed. ComEd questions only the cost-benefit balance of doing so.

IIEC concludes that because ComEd's primary/secondary analysis fails to consider the function and cost causation of the elements of its distribution system, relying instead on arbitrary interpretations of definitions to identify the facilities that are to be in the primary and secondary systems, the primary/secondary analysis in this case remains deficient. It contends that ComEd's definitions of its primary/secondary systems are internally Inconsistent, and inconsistently applied. IIEC contends that ComEd's primary/secondary analysis categorizes certain facilities as primary distribution facilities even though they are used exclusively to provide service at secondary voltages -- line transformers and single-phase primary voltage level circuits, in particular.

ComEd replied that that in order to estimate the cost of the primary circuits used to serve secondary customers, a time consuming and costly special study would be required. IIEC argued that there are reasonable ways to estimate the cost of primary circuits (single phase and multi-phase) used to serve only secondary customers.

In response, IIEC argued ComEd could have easily recognized that approximately 90% of its line transformers are used exclusively to provide service to secondary customers. Estimating these line transformer costs would not be difficult. IIEC points out that data provided by ComEd establishes that $903 million of the $1.017 billion in line transformer costs, in FERC Account 368 - Line Transformers, is associated with transformers that serve a secondary voltage. IIEC states that ignoring this useful information, ComEd elected to allocate 100% of line transformers as if this equipment was used exclusively to serve primary customers. IIEC points out that ComEd also allocates the cost of equipment associated with these transformers, totaling approximately $383.6 million, on essentially the same basis.

IIEC also identified "patches" (discussed above) to correct -- on an interim basis -- the problems arising from ComEd's use of a definitional primary/secondary split as a

substitute for cost allocations based on cost causation. Of these, we agree that line transformer costs should not be allocated to customers taking service at primary voltages. Furthermore, we believe that it may be productive to workshop whether sampling techniques can be used to allocate costs to customer classes for underground circuits operating at primary voltage serving customers only at secondary voltages.

Although ComEd's modified analysis results in $36 million in revenue requirement being re-allocated to secondary voltage level service, IIEC contends that an additional $44 million would be re-allocated if the modifications to ComEd's primary/secondary analysis that it recommends were implemented.

Another related concern voiced by Staff, IIEC, REACT, Metra, and the CTA is that the Company relied solely on engineering judgment for many assumptions about primary and secondary costs and made virtually no physical inspections of facilities to verify the reasonableness of those assumptions. The record shows that when ComEd's engineering estimates were compared to a very small number of system inspections they were found to be very inaccurate. While the Company could not be expected to inspect its entire system, some visual analyses would enable ComEd to conform the engineering assumptions that drive its analysis of primary and secondary costs to reality. We direct the parties to workshop the implementation of sampling methods for physical inspections to confirm engineering judgments.

These same parties found ComEd's judgmental process difficult to understand because most of the employees in various Company departments who provided their engineering judgment for the cost analysis did not testify in the case. Thus, the regulatory process must rely on the understanding of ComEd's estimator about what these individuals considered and how that evidence was used to produce the engineering decisions that support the proposed differentiation of primary and secondary costs for the ECOSS.

The Company's analysis identified several cost accounts that can be separated into primary and secondary components. REACT indicates that ComEd's analysis fails to explain why other accounts are not similarly divisible. Staff had an initial concern that the list of accounts did not include any transformer costs which were collectively classified as primary only. The Company argued that the assignment of a transformer to primary versus secondary should be determined by the voltage of the source-side of the transformer, not the load-side of the transformer.

Based upon ComEd's tariffs and the description of the system provided to us, we find that ComEd's current method of allocating transformer costs is not appropriate. When the exiting voltage of the transformer is secondary, the transformer can only serve secondary customers and should be allocated as a secondary system expense.

ComEd estimates approximately 300 customers (other than high voltage) actually receive power at the primary level while all other customers (excluding high voltage customers) receive power at the secondary level and therefore have their power

transformed from a primary down to a secondary level. ComEd argues that making rate adjustments for such a small number of customers is not cost effective. We disagree.

The approximately 300 customers who do not require transformers to step down their voltage should be identified. As Staff suggests, they should receive a downward rate adjustment reflective of transformation cost savings. The remaining 3.7 million customers requiring transformation down to the secondary level should pay rates that reflect an allocation of transformer costs.

In addition to the 300 primary only customers, other customers including multifamily residential customers receive secondary voltage service from transformers fed by primary voltage circuits. ComEd presently considers these customers to be primary service customers. According to our reading of ComEd's tariffs, they should be considered secondary service customers. We find that the rates charged to these customers should reflect their use of transformers and some use of the secondary distribution system. Staff indicates that these customers can be easily identified without extensive studies because they have a unique set of meters.

Another concern of Staff and some other parties is that the Company has not actively reviewed studies of primary and secondary costs prepared by other utilities. Staff contends that a review of existing studies might make it easier to determine whether the Company has adopted the most reasonable method of identifying primary and secondary costs. We agree that the allocation methods of other utilities should be examined as part of the workshop process that will be initiated as an adjunct to this proceeding.

IIEC, REACT, Metra and the CTA also argue that rates based upon further voltage differentiation are reasonable and appropriate. IIEC contends this lack of voltage differentiation does not affect all customer classes equally. Some customer classes are predominantly or exclusively made up of customers who take service either at primary voltage or secondary voltage. However, some customer classes include both primary and secondary customers, and under ComEd's rate structure all customers in a class pay the same rates (with the exception of the High Voltage Class). As a result, the cost of service differences between primary and secondary customers, identified in IIEC's modified primary/secondary analysis, cannot be fully reflected in rates. IIEC contends that the information learned in the ECOSS analysis can be more fully used and rate equity can be more fully realized if there were to be voltage differentiated rates.

IIEC suggests that the system should be divided, and rates assigned as either primary, secondary or general rates combining percentages of primary and secondary usage. Metra and the CTA articulate another formulation of this concept. We direct the parties to review this issue in the workshop process.

Consistent with the foregoing, we direct the Staff to initiate a workshop to be led jointly by the Company and Staff, open to all parties, to examine: 1) the use of direct observation or sampling and estimation techniques of ComEd's system to develop more

accurate and transparent differentiation of primary and secondary costs; 2) other utilities' methods of differentiating primary and secondary systems and costs; 3) development of function based definitions of service voltages; 4) an analysis of which customer groups are served by which system service components; and 5) consideration of redefining rate classes on the basis of voltage or equipment usage to better reflect the cost of service.

III. ISSUES RELATED TO STREET LIGHTING

A. City of Chicago

The City argued that ComEd's failure to comply with the Commission's directions is especially glaring with respect to the City's street lighting account. According to the City, the Commission clearly intended that ComEd's cost study be modified to reflect the lower costs of serving the City's street lights. In the Commission's words, ComEd's revised study must "take[ ] into account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities and allocate[ ] costs accordingly." Initiating Order at 2. The City said that the Commission was concerned that because ComEd supplies all street lighting equipment to most municipalities, its ECOSS allocates the costs of all street lighting equipment to the City (and other similarly-situated municipalities) although these municipalities own and maintain a significant portion of that equipment.

The City asserted that ComEd's response to this directive to change its cost study was inadequate. On this issue, ComEd witness Alongi testified

> In addition, ComEd re-examined the ECOSS from the 2007 rate case to determine whether ComEd included any street lighting costs that were not costs that ComEd incurs in serving its street lighting customers. We determined that the ECOSS does not include such costs. Instead, the ECOSS includes only ComEd's costs for serving street lighting customers.

ComEd Ex. 1.0 at 26.

The City argued that ComEd's interpretation of the Commission's Rate Order and its Initiating Order that the Commission was asking it to determine if any customer-owned facilities were included in its cost study is sophistry. The City claimed that "Rather, the point is that in calculating City street light rates, ComEd assumes that the City, like most other municipalities uses ComEd-owned and supplied facilities and, most importantly, charges the City for using facilities that ComEd does not provide." City Ex. 1.0 (2nd Rev.) at 24.

The City added that that is the only interpretation that makes sense. It is also the only interpretation consistent with the Commission's concern in its Rate Order that

ComEd's ECOSS, by assuming that it supplied all street lighting equipment to the City and similarly-situated municipalities, meant that "the rate for the street lighting in the City and probably other municipalities that own all or part of their own lighting is likely higher by a significant but un-quantified amount than it should be." Order at 208. The City argued that the purpose of this case was to determine that "un-quantified amount."

The City went on to say that because ComEd made no serious effort to analyze the issues that most concern the City, the City submitted the testimony of Edward C. Bodmer to do the work that ComEd did not do. Mr. Bodmer analyzed the costs that ComEd incurs to serve the City's residential street lights and its arterial street lights and concluded that ComEd's cost study allocates far too many costs to the City's street lighting account. Mr. Bodmer recommended that the City's street lighting rate be reduced by at least 50% to rectify the many errors in ComEd's cost study.

The City stated that Mr. Bodmer also analyzed the manner in which ComEd allocates certain costs it terms "customer costs." ComEd allocates these costs based on the number of customers in each class, meaning that residential customers pay the greatest share by far. The City argued that although the Commission directed ComEd to review these costs to determine if they should be allocated based on usage, ComEd conducted what can be fairly described as a cursory analysis, falling back each time to its default position that these costs should be allocated according the number of customers. The City asserted that Mr. Bodmer's detailed and far more serious analysis shows that ComEd's allocation method is wrong and unfairly imposes more than $48 million in costs on residential customers.

The City argued that it has no burden to demonstrate that its street lighting rate is too high. ComEd has to prove that its ECOSS can be used to establish just and reasonable rates. The City asserted that Mr. Bodmer's analysis of the costs ComEd incurs to serve City residential and arterial street confirmed the Commission's assumption that ComEd's cost study results in rates that are too high for City street lights was correct.

The City noted that since 1999, the distribution cost of service for ComEd's Dusk-to-Dawn customer class – the class that includes the City's street lighting account – has increased from $0.00729 per kWh to $0.01576 per kWh, an astonishing 116% in less than ten years. City Ex. 1.0 (2nd Rev.) at 20. ComEd's estimate of the distribution costs it incurs to serve the Dusk-to-Dawn customer class *increased* 99% from 1999 to its rate case in 2007. *Id*. During that same period, the distribution costs ComEd estimated it incurs to serve all other non-residential classes *decreased* from 17% to 28%. *Id*.

The City explained that the major reason for the in the costs ComEd estimates it incurs to serve the Dusk-to-Dawn class is the utility's switch from coincident peak allocation to non-coincident peak allocation when the utility changed from a marginal cost-of-service study to its embedded cost-of-service study. According to the City, a marginal cost-of-service study:

> correctly account[s] for the fact that additional distribution wires are needed when they are at or near capacity – that is, when peak load is highest. This occurs in the afternoon on hot summer days – a time when street lights are turned off. Thus, street lights do not put strain on the system and, therefore, do not add to the need to install additional primary equipment.

Id. at 21.

1. Description of City Street Lighting Configurations

City witness Bodmer described the various lighting configurations that make up the City's street lighting – alley lights, residential street lighting, and arterial street lighting. In his analysis of ComEd's costs to serve City street lights, Mr. Bodmer focused only on residential street lighting and arterial street lighting.

The City explained that Mr. Bodmer testified that if one calls the wire going from ComEd's transformer to the City's controller a service drop, then there is no secondary wire for City residential street lighting. Conversely, if one calls the wire from the transformer secondary wire, then there is no service drop. Yet, the City argued that ComEd's ECOSS assumes that all customer's in the Dusk-to-Dawn class, including the City's residential street lights, are served by both secondary wire and service drops. *Id*. at 28. In addition, although the City provides maintenance for all facilities from the City controller to the City's residential street lights, ComEd's ECOSS assumes that the utility provides maintenance for all street lighting equipment. *Id*. at 28.

As with City residential lights, the City argued that ComEd's ECOSS assumes (1) that City arterial lights are served with both service drops and secondary wire and (2) that ComEd owns and maintains all of the arterial lighting facilities. Like residential street lights, there is no secondary wire other than the connection between the transformer and the City-owned controller.

According to the City, there are two street lighting configurations by which ComEd provides street lighting service to municipalities other than Chicago. In the first configuration, ComEd owns and maintains all of the lighting equipment including poles, lamps, and wires. This configuration is included in a street lighting class entitled ""Fixture Included Lighting." *Id*. at 30. In the second configuration, ComEd owns the poles and the wires, but the municipalities own the lamps. The municipalities in the second configuration are in the same street lighting class as the City – the Dusk-to-Dawn class. *Id*. at 31. Because the first configuration is in a different street lighting class, Mr. Bodmer looked only at the Dusk-to-Dawn class, and did not analyze the costs to serve the Fixture Included class.

The City pointed out that ComEd did not challenge any of these facts. The City added that it is these very factors that led the Commission to conclude in *Docket 07-*

0566 that the City "owns and maintains most of the light poles, secondary wire and other components of street lights throughout the City."

2. Secondary Service Costs to City Residential and Arterial Street Lights

After describing the street lighting configurations in Chicago and in municipalities other than Chicago, the City explained that ComEd's ECOSS over-allocates secondary service costs to its street lighting account. Mr. Bodmer testified that City street lights used 57% of the energy used by the Dusk-to-Dawn class. Using that number, Mr. Bodmer calculated that ComEd allocates more than $4.5 million to the City of the $7.9 million it estimates it incurs to serve the Dusk-to-Dawn street lighting class. *Id*. at 31. Of the $4.5 million of costs allocated to the City, 17%, or $755,802, represents secondary wire costs and 3.5%, or 156,658, represents service drop costs. *Id*.

As mentioned above, the City argued that its residential lights and arterial lights are served by either secondary wire to the connector or service drops, but not both. In addition to those overcharges, the City argued that ComEd's ECOSS effectively allocates $248,000 for operation and maintenance ("O&M") for City secondary wire for arterial and residential street lights even though the City does that O&M work. *Id*. at 32. Mr. Bodmer also showed that although the City owns all secondary wire between its residential street lights and between its arterial street lights, inexplicably the Dusk-to-Dawn street lighting class is allocated more secondary wire costs as a percent of total costs of service than any other rate class. *Id*. at 32-33.

The City asserted that the story is similar with respect to service drop costs. Mr. Bodmer explained that although the City's residential street lights and arterial street lights are not served by service drops, ComEd's cost study nonetheless allocates more service drop costs as-a-percent of-total costs of service to the Dusk-to-Dawn street lighting class than all other non-residential classes with the exceptions of the Watt-Hour Class and the General Lighting Class. *Id*. at 33-34. The City concluded that these "errors" in ComEd's cost study show that it has no credibility with respect to estimating the costs the utility incurs to serve the City's residential and arterial street lights.

The City explained that using information provided in ComEd's workpapers, Mr. Bodmer was able to estimate the amount of secondary wire ComEd uses to serve City residential and arterial street lights. Using an estimate of 50 feet for City residential street lights and 40 feet for City arterial lights, Mr. Bodmer testified that the actual costs of secondary wire ComEd incurs to serve City residential and arterial street lights is approximately $74,000. *Id*. at 36-37. ComEd's ECOSS allocates about $684,000 to the City for secondary lines and service drops, a more than 800% increase over Mr. Bodmer's $74,000 figure. *Id*. at 36.

ComEd witness Alongi challenged Mr. Bodmer's assumptions regarding the length of secondary wire ComEd uses to serve City residential and arterial street lights. Mr. Alongi stated that ComEd analyzed a small section of the City to determine the

average number of feet of secondary wire that ComEd supplies to the City's residential and arterial street lights. ComEd Ex. 6.0 at 48. Mr. Alongi said that the average length of secondary wire that ComEd sampled was 113 feet. *Id*. at 48-49.

In his rebuttal testimony, Mr. Bodmer modified his calculation of the costs of secondary wire and service drops ComEd incurs to serve City residential and arterial street lights to include ComEd's 113 feet estimate. Doing that increased Mr. Bodmer's estimate of the costs of secondary wire and service drops ComEd incurs to serve City residential and arterial street lights to approximately $183,000 – (City Ex. 2.0 (Rev.) at 21), a figure significantly less than the $684,345 estimate included in ComEd's cost study.

3. Coincident Peak Versus Non-Coincident Peak Methodology to Allocate the Costs of Primary Wires

The City stated that the manner in which ComEd's ECOSS allocates the costs primary wires results in inflated rates for street lighting customers. ComEd uses the non-coincident peak ("NCP") method to allocate the costs of primary wires to its customer classes. City Ex. 1.0 (2nd Rev.) at 38. Mr. Bodmer testified that ComEd's method is incorrect. Mr. Bodmer advocated that primary lines be allocated using the coincident peak ("CP") methodology.

Staff witness Lazare made the same recommendation. Mr. Lazare stated that ComEd's NCP method "is composed of the peak demands for all rate classes without regard to how those peaks coincide with the peak for the system as a whole." Staff Ex. 1.0 at 34. Mr. Lazare added that the CP method "measures the demands for each rate class at the time that demand by the system as a whole is at a peak." *Id*. at 34. Mr. Lazare explained that ComEd's NCP method penalizes the lighting class which uses most of its electricity during off-peak, evening hours. Distribution substations and primary lines serve not just the lighting class, but other classes as well and the level of demands they serve can be expected to rise and fall with overall system demands rather than with any individual class. *Id*. at 34-35. Mr. Bodmer made similar points in his direct testimony. *See* City Ex. 1.0 (2nd Rev.) at 38-41.

The City noted that ComEd witness Heintz, the author of ComEd's ECOSS, defended the use of the NCP allocator in his rebuttal testimony. Mr. Heintz made several arguments in reponse to Mr. Bodmer's and Lazare's respective criticisms of the NCP method.

Heintz argued that the use of CP conflicts with Commission precedent. ComEd Ex. 7.0 at 4-5. Bodmer responded that Mr. Heintz's fixation with past Commission cases "seems to have no place in a case where the Commission has asked ComEd and the parties to work through complex cost-of-service issues. Doing so requires independent thinking, not simply restating what others have done." City Ex. 2.0 (Rev.) at 13. Mr. Lazare made a similar point stating that in this docket where the Commission has decided to take a fresh look at the entire cost of service, precedent should not

prevent the Commission from adopting a more cost-based allocation of substation and primary line costs. Staff Ex. 2.0 at 22.

The City's witness added that Mr. Heintz's claim that using the CP allocator would violate Commission precedent was not accurate, noting that:

> For decades, ComEd differentiated primary and secondary lines in a cost study (*i.e.* before ComEd started using Mr. Heintz's methodology). When it did so, the Company allocated primary lines using CP and secondary lines using NCP and the Commission endorsed its approach.

City Ex. 2.0 (Rev.) at 13. Mr. Bodmer added that there is "no logical reason to allocate primary facilities on the basis of an artificial concept – NCP – that leads to inequitable results." *Id*. at 14.

The City argued that Mr. Lazare was even more pointed in his response, saying:

> An allocator is chosen for any set of costs because it presents the more reasonable explanation for how those costs are caused by rate classes. In my testimony, I seek to explain why coincident peaks provide the most reasonable basis for allocating these costs. Mr. Heintz, for his part, does not even bother to discuss the cost justification for the Company's noncoincident peak allocator.

Staff Ex. 2.0 at 21. On this last point, the City cited Mr. Lazare's testimony that despite all of his criticisms about Mr. Lazare's recommendation that the CP allocator be used for transformers and primary lines, "Mr. Heintz presents no arguments why, from a cost standpoint, a non-coincident peak allocator is more appropriate for substations and primary lines than a coincident peak approach." *Id*. at 20.

ComEd argued that the alleged benefits for the three lighting classes (which, together, comprise only 1.5% of the total distribution services revenue requirement) do not offset the detrimental effects on other classes (which comprise more than 98% of that revenue requirement. ComEd Ex. 7.0 at 4.

Mr. Bodmer responded that ComEd's argument was irrelevant and wrong. According to Bodmer, Mr. Heintz's point that that when allocation to one class is reduced, allocations to other classes increase adds nothing because the Commission understands that cost of service issues are a zero sum game. Changing the allocation of primary facilities to the logical coincident peak basis has small effects on other classes, some of which are positive and some of which are negative. City Ex. 2.0 (Rev.) at 14.

The City noted that Mr. Bodmer analyzed the impact of using a CP allocator on ComEd's other customer classes and found that "use of CP benefits multi-family ratepayers, space heat ratepayers, small business ratepayers, as well as street light ratepayers. The residential single family class and the large business classes have increases of less than 10%." *Id*. at 14-15.

According to the City, Mr. Heintz provided no support for ComEd's preferred NCP allocator. In contrast, both Mr. Bodmer and Mr. Lazare explained why the CP allocator is consistent with cost causation principles.

4. The Majority of City Street Lights are Served by Overhead Lines

The City noted that except for the City's central business district, almost all of the City's street lights are served by overhead lines. City Ex. 1.0 (2nd Rev.) at 45-46. Mr. Bodmer noted that there is a very large cost difference between serving customers with overhead and underground lines. *Id*. at 46. The City argued that while ComEd's past cost studies accounted for this significant cost difference, ComEd's ECOSS glosses over it. *Id*. Instead, in estimating the costs to serve City street lights, ComEd's ECOSS uses the average cost of distribution lines in the City. The City asserted that this distorts ComEd's true cost of serving City street lights.

The City explained that although the vast majority of distribution lines in Chicago are overhead, 73% of ComEd's distribution costs in the City are for underground lines. *Id*. at 47. The explanation for this is that underground lines are significantly more expensive than overhead lines. Because most City residential and arterial street lights are served by overhead lines, Mr. Bodmer concluded that ComEd's ECOSS should be modified to reflect the lower costs of overhead lines serving the City's residential and arterial street lights. *Id*.

5. The City Owns and Maintains Its Residential and Arterial Street Light Poles

One of the purposes of this proceeding was for ComEd to submit a revised cost study reflecting that the City owns and maintains its street lighting system. Initiating Order at 2. The City argued the ComEd did not comply with the Commission's directive to do so. The City urged that ComEd's ECOSS should be revised to reflect these important facts.

B. ComEd's Response to the City's Position

ComEd argues that the City seeks to reduce street lighting rates by 50% based upon a flawed analysis. As a threshold matter, ComEd asserts that the City largely ignores the Commission's directive to ComEd in this proceeding. ComEd maintains that its testimony demonstrates that it examined the issue and reaffirmed that ComEd includes only its costs for serving street lighting customers. Contrary to the City's

assertion, ComEd argues that it has met the Commission's unambiguous directive to "provide an updated cost of service study that … takes into account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities and allocates costs accordingly." Initiating Order at 2. In conducting this analysis ComEd states that it confirmed that only ComEd costs were included in the costs allocated to customers in the three street lighting classes. As such, no adjustment to the costs allocated to the Street Lighting customers was required for the ECOSS. ComEd also noted that Staff had no objection to the manner in which ComEd analyzed this issue. Accordingly, ComEd urges the Commission to reject the City's suggestion that ComEd failed to address this issue.

Meanwhile, ComEd argues that the City's attempt to recalculate ComEd's costs of providing street lighting service should be rejected. ComEd asserts that the evidence shows that the City's analysis is permeated with errors, resulting in an unreasonably low allocation of costs to the City's street lighting. For example, in support of its street lighting analysis, the City presents its understanding of the configuration of facilities used to serve City street lights. ComEd states that its witness, Mr. Alongi, demonstrated that the City's understanding was wrong. In response to the City's claim that its street lights are different from the street lights in the suburbs, Mr. Alongi explained that various municipalities operate dusk to dawn lighting systems similar to the manner in which the City operates its system. Mr. Alongi also noted that the City is not the only municipality that utilizes customer-owned wire between its dusk-to-dawn lamp units. Consequently, ComEd asserts that it has demonstrated that the City has a flawed understanding of the facilities used to serve street lighting customers, which include the City and suburban customers.

ComEd states that the City failed to consider 62,230 alley lights that are connected to ComEd's distribution system. Rather, the City incorrectly assumes that these alley lights use no secondary wire. ComEd witness Alongi explained that this assumption is wrong and that, in fact, alley lighting does use ComEd-provided secondary wire. ComEd states that another example of a flaw in the City's analysis is the manner in which it underestimated the "Cost per Foot of Wire" for secondary wire. Here, ComEd cites to the testimony of its witness, Mr. Alongi, who explained that the City's calculated cost of such wire was off by 40%—its estimate is $1.82 per foot while the correct computation results in a cost of $3.04 per foot.

ComEd also asserts that the City's claim that ComEd improperly allocated $248,000 in O&M expenses associated with secondary wires to the City is factually incorrect. ComEd states that the evidence establishes that ComEd does not charge the City for work that the City performs. Rather, the O&M costs in question, as explained by ComEd witness Alongi, are the allocated share of ComEd's costs of operating its secondary system, to which street lights are connected. ComEd further explained that whether the City may have its own wire strung between street lights is of no consequence, as ComEd's ECOSS does not include the City's costs for owning the wire, or any related O&M costs. Thus, ComEd argues that it has demonstrated that the

City's assumptions are incorrect - ComEd only allocates its own O&M costs to secondary customers, including street lighting customers.

ComEd states that the City's similar argument concerning service drop costs suffers from the same flawed assumptions. ComEd asserts that its cost allocation to the Dusk to Dawn Lighting Class does not include any costs for the service drop wire, because the wire is owned and provided by the customer. The only allocation to the customer is for the cost of connecting the customer wire to the secondary system.

Additionally, ComEd opposes the City's claim that the ECOSS fails to recognize that most of the City's residential and arterial street lights are served by overhead lines. Here, ComEd states that what the City actually is proposing is to segment and effectively subdivide ComEd's distribution system. ComEd asserts that it has demonstrated that what the City is proposing would require duplicate customer classifications, one for overhead and one for underground, with further subclassifications for regions, and with equipment segmented by age and line density. ComEd maintains that such a request conflicts with ComEd's Commission-approved definitions of its primary and secondary distribution systems and would be impractical, requiring an extraordinarily complex undertaking to first establish and thereafter maintain the categorization of such information. Absent any reasonable basis to impose such a scheme, ComEd concludes that the City's proposal should be rejected.

Finally, ComEd responds to the City's assertion that ComEd failed to recognize that the City owns the poles used to provide residential and arterial street lighting. ComEd argues that this claim is baseless. ComEd points to unrebutted evidence showing the cost for street lighting customers who own their own poles, like the City—the Dusk to Dawn Street Lighting Delivery Class—and the cost to serve customers who use ComEd-owned poles and light fixtures—the Fixture-Included Lighting Delivery Class. This evidence shows that the cost for each class is: (a) Fixture-Included Lighting customer cost, 16.51¢ kWh; and (b) Dusk to Dawn customer cost, 1.58¢ kWh. ComEd explained that the higher cost for the Fixture-Included Lighting Delivery Class as compared to the cost for the Dusk to Dawn Street Lighting Delivery Class reflects the cost of the ComEd-owned lighting fixture and appropriate assignment of pole costs. Thus, contrary to the City's claim, ComEd argues that it has properly considered the difference in cost between the two types of lighting service offered to customers.

Finally, ComEd and the CG cite to a NARUC study that recommends use of the NCP in allocating distribution facilities costs. ComEd Init. Brief at 26; CG Init. Brief at 6. The City argued that this secondary source has little evidentiary value in the face of the arguments made by Mr. Bodmer and Mr. Lazare.

C. Staff

Staff's position is that the Company appears to address the Commission's concern about whether the ECOSS "takes into account ownership and maintenance responsibilities of street lighting in the City of Chicago and other municipalities and

allocates costs accordingly" in a reasonable manner. ComEd witness Heintz discusses the process by which ComEd's ECOSS allocates costs to the lighting class, indicating that lighting customers, like other customers, use the various components of the distribution system to receive electricity with the one difference being that the cost of fixtures is allocated to the "Fixture-included" lighting class. Thus, Mr. Heintz finds that appropriate costs are allocated to the lighting class. Staff Ex. 1.0 at 33-34.

Staff witness Lazare did take issue with Mr. Heintz's argument concerning the allocation of distribution costs to lighting and other classes. Mr. Heintz seeks to justify the Company's allocation of distribution substations and primary lines according to class non-coincident peaks (NCP) by citing the statement from the Commission Order in *Docket 07-0566* that, "[t]he records shows that distribution facilities must be planned and built to meet customers' maximum loads regardless of when those may occur." ComEd Ex. 3.0 at 12; Staff Ex. 1.0 at 34.

Mr. Lazare testified that the evidence in this docket calls into question the use of the NCP for distribution substations and primary lines. Distribution substations and primary lines serve not just the lighting class, but other classes as well and are designed to meet the peak demands of customers in multiple classes, rather than the demands of customers in an individual class. Thus, it is more likely that demands for distribution substations and primary lines will coincide with system peak demand, than the peak demand of lighting customers which occurs during off-peak hours. Furthermore, when the system is peaking, lighting demands are low the lights go on in the dark. In other words, lighting customers use less when capacity is tight and more when spare capacity is available. Staff Ex. 1.0 at 34-35. In Mr. Lazare's opinion this is a clear benefit to the system from a cost standpoint that is not recognized in ComEd's allocation methodology for distribution substations and primary lines. ComEd allocates these costs according to the NCP which uses the peak demand for each class regardless of when it occurs. So the lighting class receives no credit in the ECOSS for its off-peak demands despite the resulting system savings. Staff Ex. 1.0 at 35.

Mr. Lazare added that this cost inequity should be addressed by allocating distribution substations and primary lines by class contributions to coincident peak demands. This would recognize that the size of these facilities is more clearly driven by system peak demands than by the demands of individual rate classes. Staff Ex. 1.0 at 35.

Staff argued in its initial brief that ComEd responds to the CP proposal by contending it is driven by an "alleged 'cost inequity'" for the lighting class. The Company further argues that the CP approach reflects the unsupported assumption that demands on substations and primary lines are likely to be greatest when demand on the system is at a peak. The Company also notes that precedent for ComEd favors the NCP peak approach while Staff's alternative CP approach is encumbered by an alleged lack of precedent. The Company faults Staff for only identifying two utilities outside Illinois that use the coincident peak allocator for substations and primary lines in response to discovery. ComEd Ex. 7.0 at 4-5.

Mr. Lazare testified that the fundamental flaw in the Company's position is a failure to present any arguments why the NCP is more appropriate for substations and primary lines from a cost standpoint than a CP approach. Cost should be the determining issue in this discussion and on this subject ComEd has nothing to say. Staff Ex. 2.0 at 20.

He explained that the Company's complaint that Staff's argument on this issue revolves around the lighting class is baseless. The lighting class is an appropriate focus for the discussion because it illustrates the shortcomings of an NCP allocator for these costs. Individual substations and primary lines are not constructed to serve customers within any single class but rather to serve customers from numerous classes. This means that a substation or primary line is not sized to meet the demands of any single class, but rather the collective demands of customers from numerous classes. Lighting is relevant to the discussion issue because its peak demands generally do not coincide with peak demands for the system as a whole. Thus, peak lighting demands should not play the same role in shaping substation and primary line investments as the demands by classes with higher demands at the time of system peak demands. This is why CP demands, rather than non-coincident peak demands, provide the most reasonable basis for allocating these costs. Staff Ex. 2.0 at 20-21.

The Company also incorrectly claims a lack of support in this docket for the assumption that demands on substations and primary lines are likely to be greatest when demand on the system is at a peak. Staff has explained why the collective peak demands of multiple rate classes is better than the non-coincident peak demands of individual rate classes more accurately reflects the incurrence of these costs. The Company can continue to insist without evidence that Staff's assumption is incorrect, but it has no basis for arguing it lacks support. Staff Ex. 2.0 at 21.

In sum, the Company appears to believe that precedent is reason enough on its own to adopt the Company's proposed allocator for substations and primary lines. However, the theme of the current proceeding initiated by the Commission is to set aside precedent and examine whether the Company's cost of service study is truly reflective of costs. In this docket with the Commission clearly seeking to take a fresh look at the entire cost of service, precedent should not derail the Commission from adopting a more cost-based allocation of substation and primary line costs. Staff Ex. 2.0 at 21-22.

Finally as Staff argued in its initial brief, it should be noted that ComEd in surrebuttal insists without explanation that it "designs its primary lines and substations based on the noncoincident peak that occurs on those facilities, not the system coincident peak." ComEd Ex. 10.0 at 27. Staff argued in brief that was an unsupported claim that fails to explain why primary lines and substations that serve the collective demands of multiple classes would take into account the individual peaks of any one class, whether it be residential space heating or lighting in determining the size of plant to be built.

IIEC, ComEd and the CG cite to a NARUC study that recommends use of the NCP in allocating distribution facilities costs. ComEd Init. Brief at 26; CG Init. Brief at 6. The City argued that this secondary source has little evidentiary value in the face of the arguments made by Mr. Bodmer and Mr. Lazare.

D. Commission Analysis and Conclusions

In our Order in *Docket 07-0566*, we directed ComEd to conduct an analysis to determine appropriate rates for the City of Chicago Street lighting. Despite the extensive operation and maintenance expense borne by the City for its lighting, ComEd allocates more than $4.5 million to the City of the $7.9 million in expenses allocated to the Dusk-to-Dawn street lighting class. The City argues that this allocation is not supported by the costs incurred by ComEd in providing service.

There are three lighting classes under ComEd's ECOSS: 1) The fixture included class whose members are municipalities where ComEd provides lamps, lighting equipment and maintenance; 2) the Dusk to Dawn class whose members have additional maintenance responsibilities; 3) the general lighting class.

1. Costs Related to Overhead and Maintenance

The City, a member of the Dusk to Dawn lighting class, maintains that unlike other members of this customer class, it owns and maintains the poles, equipment and wires used for street lighting (other than alley lights that are owned and maintained by the City but are located on ComEd poles).

ComEd contends that contrary to the City's claim, other members of the Dusk to Dawn lighting class provide lighting equipment and maintenance similar to the City of Chicago. It argues that it is appropriate to allocate costs to the City on the same basis as it does to other members of the class. ComEd asserts that there are almost 300 municipalities in this customer class. Although all class members are not specifically identified, the record indicates that they include Aurora, Oak Brook, Downers Grove and Lisle, Illinois.

ComEd's tariff for this customer class provides in part:

> A lighting retail customer to which the Dusk to Dawn Lighting Delivery Class or General Lighting Delivery Class is applicable, must furnish, install, own, operate, replace, and maintain, all necessary equipment, including all fixtures, light sources, wires, cables, meter connection devices and appurtenances.

ComEd points to unrebutted evidence showing the cost for street lighting customers who own their own poles, like the City—the Dusk to Dawn Street Lighting

Delivery Class is far lower than the cost to serve customers who use ComEd-owned poles and light fixtures—the Fixture-Included Lighting Delivery Class. This evidence shows that the cost for each class is: (a) Fixture-Included Lighting customer cost, 16.51¢ kWh; and (b) Dusk to Dawn customer cost, 1.58¢ kWh. ComEd explained that the higher cost for the Fixture-Included Lighting Delivery Class as compared to the cost for the Dusk to Dawn Street Lighting Delivery Class reflects the cost of the ComEd-owned lighting fixture and appropriate assignment of pole costs.

Thus, contrary to the City's claim, it appears that the City's operational and maintenance expenditures are similar to other members of this customer class. It appears that ComEd does not pay for or absorb the cost of servicing lighting equipment for other members of this class, although some class members may have lights mounted on ComEd service poles. We believe that ComEd has properly considered this aspect of the cost of providing street lighting service to the City of Chicago.

2. Secondary Service Costs

The City next contends that ComEd's ECOSS over-allocates secondary service costs to its street lighting account. Of the $4.5 million of lighting costs allocated to the City, 17%, or $755,802, represents secondary wire costs and 3.5%, or $156,658, represents service drop costs. The City asserted that ComEd's analysis allocates more service drop costs as-a-percent of total costs of service to the Dusk-to-Dawn street lighting class than almost all other non-residential classes. ComEd counters that the ratio for secondary costs in the street lighting category is high because several other cost elements are low or zero. Therefore, the ratio of service drop costs to the cost total is a higher percentage of the total than it is for other customer classes.

The City notes that its residential lights and arterial lights are served by either secondary wire to the connector or service drops, but not by both. The City argues that a substantial percentage of these charges are duplicative. The City argued that even after adopting ComEd's estimate of the cost of secondary wire, its calculations indicate that service drop equipment should cost $183,000 rather than the $684,000 in the ECOSS, an alleged overcharge of about 370%.

ComEd responds that the City failed to consider 62,230 alley lights that are connected to ComEd's distribution system and an estimated 4.2 million feet of wire to supply the alley lights. The City witness asserts that its figures reflect an adjustment for alley lights. ComEd explained that alley lighting does use ComEd provided secondary wire not included in the City analysis. ComEd states that another example of a flaw in the City's analysis is the manner in which it underestimated the "Cost per Foot of Wire" for secondary wire. Here, ComEd cites to the testimony of its witness, Mr. Alongi, who explained that the City's calculated cost of such wire was off by 40%—its estimate is $1.82 per foot, while the correct computation results in a cost of $3.04 per foot.

Although ComEd says when these costs are taken into account, this alleged overcharge disappears, it does not provide an alternative annual cost calculation.

ComEd does not seem to be discussing the issue in a manner lends itself to analysis. The City is concerned with annual costs whereas ComEd seems to be discussing total capital outlays rather than annual charges. In the absence of any meaningful refutation of the City's calculation by ComEd, we direct that the charge for street lighting service drops should be reduced to $183,000.

3. Other Costs

In addition, the City argued that ComEd's ECOSS effectively allocates $248,000 for O&M for City secondary wire for arterial and residential street lights even though the City does its own O&M work. ComEd states the O&M costs in question are the allocated share of ComEd's costs of operating its secondary system, to which street lights are connected. ComEd further explained that whether the City may have its own wire strung between street lights is of no consequence, as ComEd's ECOSS does not include the City's costs for owning the wire, or any related O&M costs. We are not aware of any calculation made part of the record from which the $248,000 allocation is derived, but on its face the number does not seem unreasonable. We find that this is an appropriate allocation of this cost.

The City asserts that ComEd's cost allocations are premised on its erroneous determination that the vast majority of service connections for lighting are expensive underground connections. The City points out that most of the street lighting connections in the City are the less expensive overhead variety.

ComEd's response to this is that the City's similar argument concerning service drop costs suffers from the same flawed assumptions. ComEd opposes the City's claim that the ECOSS fails to recognize that most of the City's residential and arterial street lights are served by overhead lines. Here, ComEd states that what the City actually is proposing is to segment and effectively subdivide ComEd's distribution system. ComEd asserts that it has demonstrated that what the City is proposing would require duplicate customer classifications, one for overhead and one for underground, with further sub-classifications for regions, and with equipment segmented by age and line density. ComEd maintains that such a request conflicts with ComEd's Commission-approved definitions of its primary and secondary distribution systems and would be impractical, requiring an extraordinarily complex undertaking to first establish and thereafter maintain the categorization of such information. Absent any reasonable basis to impose such a scheme, ComEd concludes that the City's proposal should be rejected.

The Commission finds ComEd's explanation of this issue to be problematic. The City is assigned approximately 60% of the costs for this customer class. Yet ComEd chooses to allocate service drop costs, not on the basis of the small percentage of underground lighting service connections in the City lighting system but as if the more expensive underground connection constituted most of its service drops. This is clearly a case of the tail wagging the dog. We find that the allocation of this cost should reflect reality. We are cognizant that ComEd insists that allocating this cost appropriately is more complex than merely factoring in an underground/overhead service drop ratio.

We direct the parties to explore in the workshop process, contemplated as part of this Order, whether sampling techniques could be used to establish appropriate underground to overhead connection ratios for customer classes and allocate costs on that basis.

4. NCP/CP Issue

Staff and the City call into question the use of the NCP allocation method for distribution substations and primary lines. Distribution substations and primary lines serve not just the lighting class, but other classes as well and are designed to meet the peak demands of customers in multiple classes, rather than the demands of customers in an individual class.

Staff argues that it is more likely that demands for distribution substations and primary lines will coincide with system peak demand, than the peak demand of lighting customers which occurs during off-peak hours. ComEd allocates these costs according to the NCP which uses the peak demand for each class regardless of when it occurs. Staff argues that this disadvantages the lighting classes, which receive no credit in the ECOSS for its off-peak demands despite the resulting system savings.

Staff contends this cost inequity should be addressed by allocating distribution substations and primary lines by class contributions to coincident peak demands. This would recognize that the size of these facilities is more clearly driven by system peak demands than by the demands of individual rate classes. Staff says that the fundamental flaw in the Company's position is a failure to present any arguments why the NCP is more appropriate for substations and primary lines from a cost standpoint than a CP approach.

Cost should be the determining issue in this discussion. The City of Chicago agrees with Staff's analysis as it relates to street lighting costs because peak demand for street lighting occurs in off peak times for the system as a whole and the NCP fails to give any benefit to street lighting customers.

ComEd submits that Staff's and the City's proposal to adopt a CP analysis for primary lines and substations should be rejected as factually incorrect and inconsistent with recent Commission decisions. ComEd states that Staff and the City's assumption that ComEd plans to meet its primary distribution system loads on a CP basis is misplaced. ComEd, in surrebuttal testimony, insists without explanation that it "designs its primary lines and substations based on the non-coincident peak that occurs on those facilities, not the system coincident peak." ComEd also argues that Staff's and the City's proposal conflicts with prior Commission decisions.

IIEC and the CG support ComEd's use of NCP for its investment in primary lines and distribution system. The CG witness indicated that the Electric Utility Cost Allocation Manual published by NARUC provides that the NCP allocator is normally used for allocation to sub stations and primary lines.

Individual substations and primary lines are not constructed to serve customers within any single class but rather to serve customers from numerous classes. This means that a substation or primary line is not sized to meet the demands of any single class, but rather the collective demands of customers from numerous classes. Lighting peak demand generally does not coincide with peak demands for the system as a whole. Thus, peak lighting demands should not play the same role in shaping substation and primary line investments as the demands by classes with higher demands at the time of system peak demands.

We are persuaded that the allocation costs to substations and primary lines should be made on a CP basis.

IV. CUSTOMER CARE COSTS

A. ComEd

ComEd states that it undertook a comprehensive study of the costs it incurs in providing customer services to determine whether these costs are sensitive to customers switching to receive supply service from a RES. It is ComEd's position that this study complied with the Commission's directive in the Initiating Order, as well as past Commission guidance regarding identification of costs related only to the supply function and costs incurred to support its distribution function. ComEd notes that Staff agrees that ComEd addressed the customer services costs issue set forth in the Initiating Order through this study.

According to ComEd, customer services encompass nearly every aspect of a customer's interaction with ComEd, including billing and mail services, revenue management, payment processing, field and meter services, the Customer Contact Center, and customer relations, as well as costs related to back office support of these functions, such as project and support services, information technology, demand management, electric supplier services, and market research. ComEd states that the results of its analysis show that the current level of customers switching to RES service, which is approximately 1%, has made no impact on ComEd's costs related to customer services. The results of ComEd's study also show that, if switching levels reached 10% or 100%, which is not likely in the foreseeable future, customer services costs would actually increase.

ComEd explains that it began its analysis of customer services costs by identifying the appropriate costs to be examined, its 2006 direct operating and maintenance ("O&M") costs that were analyzed during ComEd's 2007 Rate Case - a total of $138,582,450. ComEd asserts that it initially identified these costs for further review even though some of them are clearly associated with activities designated as "delivery services" in Section 16-102 of the Public Utilities Act, which specifies as a component of delivery services the provision of standard metering and billing services. Accordingly, of the $138,582,450 in customer services costs identified for further review,

the following were excluded from ComEd's detailed analysis as indisputably relating to delivery service: Metering Services ($34,018,844), Large Customer Services ($7,384,136), Demand Management ($4,301,914) and Advertising ($612,800).

The remaining $92,264,756 was segmented by department. ComEd states that it determined that approximately 99% of these costs were in departments that had costs totaling an amount equal to or greater than $100,000. As a result, ComEd established a minimum threshold of $100,000 for the departmental costs to be further examined in the study. ComEd determined not to further analyze $601,860 in costs from individual departments that did not meet the threshold of $100,000, which left $91,662,896 in costs to be further examined in ComEd's study.

Next, ComEd analyzed the potential for these costs to decrease or increase based upon the number of customers switching to take supply service from RESs. This analysis examined the potential sensitivity in customer services cost levels in response to three different levels of customers switching to RES supply service: 1%, 10%, and 100%. Based upon this examination, ComEd states that it determined that its distribution-related customer services costs will not be reduced at the current level of customer switching. In addition, ComEd states that it determined that additional costs would need to be incurred to handle the infrastructure required to enable increased volumes of switching above 10%.

ComEd argues that its study establishes that the customer services costs it incurs persist regardless of the level of customer switching or the entity providing supply services. ComEd thus concluded that other than the costs already identified as related to supply in ComEd's 2007 Rate Case, no additional customer services costs are related to the provision of supply services; instead, such costs are classically delivery service costs allocable to and properly recovered from all customers because ComEd provides delivery service to all its customers.

In response to REACT's proposal, ComEd argues that REACT's proposal to remove nearly $88 million in customer services costs from ComEd's distribution service-related revenue requirement is flawed in several respects. According to ComEd, the crux of REACT's "analysis" supporting this proposal is an unsupported and arbitrary 50% functionalization factor that is used to allocate to the delivery and supply functions all customer services costs that "cannot be directly assigned to the delivery function or the supply function." That is, REACT performed no analysis or calculation to determine the portion of costs to be "allocated" to supply. Nor did it make any serious attempt to address the threshold question of whether ANY of the costs are reasonably allocable to supply with the possible exception of its recognition that metering costs have been statutorily designated as delivery costs.

ComEd also argues that REACT's analysis completely ignores the evidence that customer services costs will *increase* at switching levels of 10% or 100%, as ComEd incurs the costs of providing services to support the marketplace. For example, at 10% switching, ComEd states that its Electric Supplier Services Department estimates that

its costs would increase by $102,855 due to the increased labor required to manage enrollments, data requests, and account management work necessary to support the marketplace. In addition, ComEd states that it would incur increased costs relating to Information Technology to pay an external vendor to handle the additional processing of electronic data interchange transactions required by 100% switching, which would include ongoing costs of $2,170,000 per year, as well as one-time startup costs.

ComEd argues that REACT's failure to give credence to the possibility that ComEd's costs may increase ignores not only the record evidence, but also the Illinois legislature's recognition in Section 16-118 of the Act that ComEd's costs may increase as it is required to provide additional services to RESs.

ComEd notes that it is not alone in recognizing the deficiencies in REACT's proposal. In calling for the rejection of REACT's proposal, Staff points out numerous problems presented by REACT's proposal, including: (1) creating disparities in rates between sales and delivery customers "that would be difficult to justify from a cost standpoint;" (2) sending erroneous price signals concerning the relative cost of bundled and unbundled service by permitting a customer leaving bundled service to pay significantly less for billing services even if the underlying costs have not changed; (3) conflicting with the Commission's determination of the level of credit for ratepayers if their bill comes from the RES under the Single Bill Option; and (4) setting a bad precedent for all electric and gas utilities in Illinois. ComEd also points to Staff's conclusion that REACT did not present evidence supporting its alternative methodology in the face of the evidence developed in this proceeding indicating ComEd's proposed method of accounting for the customer services costs presents the most reasonable approach.

In addition, ComEd notes that the AG also urges the Commission to reject REACT's proposal because, *inter alia*, the AG agrees with ComEd witness Hemphill's testimony that adoption of this proposal would likely only lead to years of future litigation.

Finally, ComEd states that this is not the first time this Commission has been urged to approve such reallocation of ComEd's customer services costs. In ComEd's 2005 rate case, a coalition of alternative energy suppliers unsuccessfully requested that approximately 25% of ComEd's customer services costs be allocated to the supply function. *Commonwealth Edison Company*, Docket No. 05-0597 (July 26, 2006) Order at 257 ("*Docket 05-0597*"). Then, in ComEd's 2007 rate case, REACT unsuccessfully proposed to reallocate exactly 40% of the total $162.2 million (or $64.9 million) in certain customer services costs to ComEd's supply function. *Docket 07-0566*, Order at 207. Now, in this proceeding, REACT requests that approximately $88 million in customer services costs be removed from ComEd's distribution revenue requirement and recovered from ComEd's supply function, which ComEd submits is an adjustment largely based upon an unreasoned 50% functionalization factor.

In sum, ComEd argues that the results of its study of customer services and their associated costs show that the current level of customers switching to RES service, which is 1%, has not made an impact on ComEd's costs related to customer services, and that ComEd's customer services costs would likely increase if switching levels reached 10% or 100%. Accordingly, it is ComEd's position that the Commission should reject REACT's proposal here, which is consistent with the Commission's rejection of similar reallocation proposals in the prior two ComEd rate proceedings.

In the event the Commission, notwithstanding the foregoing, concludes that certain customer services costs should be allocated to ComEd's supply function pursuant to REACT's reallocation proposal, the Commission should make clear that ComEd may recover such costs through either Rider PE - Purchased Electricity or Rate BESH - Basic Electric Service Hourly Pricing, as applicable.

B. REACT

REACT asserts that to address the extent to which Customer Care Costs are "attributable specifically to bundled supply customers" (2007 ComEd Rate Case Final Order at 207-08), the Commission's Initiating Order specifically required an analysis of "the cost of providing Customer Care to a customer taking supply from an alternative supplier versus the cost of providing Customer Care to a customer taking supply from ComEd." Initiating Order at 2.

REACT argues that REACT witness Merola is the only witness who undertook the analysis required to answer the Commission's directive regarding allocation of Customer Care Costs. Mr. Merola's analysis demonstrated that for residential customers the average cost of providing Customer Care to a customer taking supply from an alternative supplier is .5549 cents/kWh while the average cost of providing Customer Care to a customer taking supply from ComEd is .8043 cents/kWh. REACT Ex. 4.0 at 7. After correcting for the initial errors ComEd made in presenting its original data, Mr. Merola calculated that of the $230,129,810 in Customer Care Costs for residential customers, $158,768,596 should be allocated to the delivery function while the remaining $71,361,214 should be allocated to the supply function. *Id.* In other words, ComEd's cost of providing Customer Care to a residential ComEd supply customer is 45% higher than ComEd's cost of providing Customer Care to a residential non-ComEd supply customer. This analysis is shown in REACT Exhibit 4.4.

Mr. Merola also concluded that of the $54,936,844 in Customer Care Costs for non-residential customers, $38,327,424 should be allocated to the delivery function while the remaining $16,609,420 should be allocated to the supply function. *Id.* In answer to the Commission's directive to ComEd in this investigation, Mr. Merola's analysis demonstrated that for non-residential customers the average cost of providing Customer Care to a customer taking supply from an alternative supplier is .0604 cents/kWh while the average cost of providing Customer Care to a customer taking supply from ComEd is .1587 cents/kWh. In other words, ComEd's cost of providing Customer Care to a nonresidential ComEd supply customer is 163% higher than

ComEd's cost of providing Customer Care to a non-residential non-ComEd supply customer. This analysis is shown in REACT Exhibit 4.5.

REACT explains that ComEd did not undertake an analysis that responded to the Commission's directive to analyze "the cost of providing Customer Care to a customer taking supply from an alternative supplier versus the cost of providing Customer Care to a customer taking supply from ComEd." Initiating Order at 2. Instead, ComEd purported to analyze whether or not Customer Care Costs would go down with an increase in switching to alternative suppliers.

1. Mr. Merola's Analysis

REACT explains that Mr. Merola identified four primary steps required for an appropriate cost allocation of Customer Care Costs between the delivery and supply functions:

1. Quantify overall Customer Care Costs. He identified those costs related to Customer Care from ComEd's ECOSS filed in the 2007 ComEd Rate Case.

2. Directly assign to the delivery function those costs that are associated only with the delivery function. He assigned to the delivery function all Customer Care Costs ComEd identified as being associated only with the delivery function.

3. Directly assign to the supply function those costs that are associated only with the supply function. He assigned to the supply function all Customer Care Costs ComEd identified as being associated only with the supply function.

4. Apply a functionalization factor to remaining Customer Care Costs to allocate those costs to the delivery or supply function. Employing a conservative methodology, Mr. Merola allocated the remaining Customer Care Costs – i.e., those that cannot be directly assigned to the delivery function or the supply function – in an equal split: 50% to the delivery function and 50% to the supply function.

To perform his analysis, Mr. Merola used the same four ECOSS categories (billing - computation and data management; bill issue and processing; customer information; and metering services) that ComEd used. However, rather than restrict the analysis only to O&M costs as ComEd did, Mr. Merola included the costs associated with the full revenue requirement. Mr. Merola explained the logic of that approach because it includes all Customer Care Costs included in ComEd's ECOSS, and thus in ComEd's rates.

REACT points out that at the hearing, Mr. Meehan, ComEd's witness on Customer Care Cost allocation, admitted that no ComEd witness took issue with the validity of using the costs associated with the full revenue requirement – i.e., $285 million. Tr. at 392. Further, when REACT inquired of Mr. Meehan why ComEd limited its review of Customer Care Costs just to the O&M costs, he responded that his review

was limited based solely upon the decision of a non-testifying manager, whose rationale was not explained. Tr. at 392-393.

Mr. Merola explained that the total costs by category include: (1) $158,963,136 for billing – computation and data management; (2) $24,879,861 for bill issue and processing; (3) $11,393,008 for customer information; and (4) $89,830,649 for metering services. This represents a total of $285,066,654 in Customer Care Costs. The analysis is shown in REACT Exhibit 4.3.

ComEd identified the following costs as being associated with the delivery function: (1) all costs associated with metering services; (2) all costs associated with the Large Customer Services department; (3) all costs associated with the Demand Management department; (4) all costs associated with the Advertising department; and (5) 65% of the costs associated with the Customer Contact Center. Mr. Merola assigned all of these costs to the delivery function just as ComEd did, with the exception of adjustments for Large Customer Services and the Customer Contact Center.

Regarding the Large Customer Services department, Mr. Merola concluded that since that department clearly supports activities related to customers that take or could take supply from ComEd under Rate BESH – Basic Electric Service Hourly Pricing, it is improper to assign all of these costs solely to the delivery function. See REACT Ex. 2.0 at 19. ComEd explained that the Large Customer Services department supports six (6) activities including: demand response, billing inquiries, customer collections, new service installations, and storm restoration or emergency support. Activities related to billing inquiries and customer collections also support the supply function, because both activities support customers on Rate BESH. However, REACT maintains that ComEd has provided no meaningful information to determine what portion of these costs should be allocated to the delivery and supply functions, despite repeated requests for such information. As a result, because two-thirds of the functions covered by ComEd's Large Customer Services support the delivery function, Mr. Merola directly assigned two-thirds of the cost to the delivery function. *Id.*

REACT criticized ComEd's analysis of the supply-related costs associated with its Customer Call Center. For example, ComEd asserted that no costs for calls received from customers should be allocated to supply because "(c)ommercial accounts have switched in significant volumes and as a result, ComEd's best estimate is that call volumes will not be impacted further." ComEd Response to REACT Data Request 5.01. However, ComEd's current level of switching for commercial accounts is just 12.3%. In other words, nearly 90% of commercial accounts continue to purchase their supply from ComEd. REACT argues that it makes no sense for ComEd to assert that no commercial customers contact the Customer Call Center to inquire about their supply charges.

REACT notes that Mr. Merola performed his own detailed analysis to allocate ComEd's Customer Call Center costs to the delivery and supply functions. First, Mr. Merola allocated all calls related to outages, emergencies, disconnects, moving, installations, or meter readings fully to the delivery function. He then allocated the

remaining calls, which clearly support both the supply and delivery functions, evenly to the supply and delivery functions. Mr. Merola's analysis concluded with an allocation of 71% of the call center costs to the delivery function and 29% of the call center costs to the supply function. The calculations are shown in REACT Exhibit 4.2.

Mr. Merola then also assigned the following costs directly to the delivery function: (1) $89,830,649 for Metering Services; (2) $4,301,914 for the Demand Management department; (3) $612,800 for the Advertising department; (4) $4,922,757 for the Large Customer Services department; and (5) $16,142,549 for the Customer Contact Center. See REACT Ex. 4.0 at 27. Under Mr. Merola's analysis, $115,810,669 of Customer Call Center costs are directly assigned to the delivery function, while $6,572,801 are directly assigned as supply costs. *Id.* Mr. Merola also directly assigned the $112,483 in Electric Supplier Services Department costs to the supply function, in the same manner as ComEd. REACT Ex. 2.0 at 20. Thus, the total amount directly assigned to the supply function under Mr. Merola's analysis is $6,685,284. REACT Ex. 4.0 at 27.

Mr. Merola then explained that, following the direct assignment, a total of $162,570,701 of Customer Care Costs remained to be allocated to the delivery and supply function, including: (1) $126,910,632 for billing – computation and data management; (2) $24,879,861 for bill issue and processing; (3) $10,780,208 for customer information; and (4) $0 for metering services. REACT Exhibit 4.3. Mr. Merola noted that these are fixed costs because ComEd has indicated that under current switching rates of 1%, its costs have not increased or decreased as a result of customer switching activity and that there will be little to no change in costs with switching rates of 10% or 100%. See REACT Ex. 2.0 at 22.

REACT points out that although ComEd has numerous functionalization factors (including factors for labor, equipment, and software) to allocate components of its revenue requirement, it did not develop any functionalization factors to allocate Customer Care Costs. REACT propounded numerous data requests to ComEd to try and obtain data that might be useful for supporting the development of a functionalization factor, but, according to REACT, ComEd repeatedly indicated that it does not track activities to develop that data.

Faced with this situation, REACT explained that Mr. Merola took a conservative approach, in recommending that the Commission allocate 50% of the costs to the delivery function and 50% to the supply function. Mr. Merola explained that one rational means of allocating these costs would be based on the share of revenue associated with supply compared to the share of revenue associated with distribution. Mr. Merola indicated that because supply represents a much higher percentage of a customer's bill than does distribution, that methodology would result in an allocation factor in the range of 67% allocation to supply function, rather than the 50% that Mr. Merola recommends.

Further, Mr. Merola noted that from a customer care perspective, the supply portion of the business is very complex. Supply rates include numerous tariff components that change far more frequently than the distribution rates. For example,

Rate BESH has numerous components that must be frequently computed, including the Capacity Charge, Hourly Energy Charge, PJM Services Charge, Miscellaneous Procurement Components Charge, and the Hourly Purchased Electricity Adjustment Factor. Thus, Mr. Merola explained that the 50% functionalization factor is a very reasonable estimate of the percentage of the Customer Care Costs that are attributable to delivery and supply, given the lack of data provided by ComEd.

Using that approach Mr. Merola concluded that of the $162,570,701 in Customer Care Costs that are not directly assigned to either the delivery or supply function, $81,285,350 should be allocated to the delivery function, and $81,285,350 should be allocated to the supply function. REACT Ex. 4.0 at 28.

In summary, Mr. Merola evaluated a total of $285,066,654 in total Customer Care Costs based on ComEd's ECOSS. REACT Ex. 4.0 at 28. He determined that of those costs, $115,810,699 should be directly assigned to the delivery function while $81,285,350 should be allocated to the delivery function, for a total of $197,096,020 allocated to the delivery function. Similarly, he determined that $6,685,284 should be directly assigned to the supply function while $81,285,350 should be allocated to the supply function, for a total $87,970,634 allocated to the supply function. This analysis is shown in REACT Exhibit 4.3.

Mr. Merola likewise allocated the Customer Care Costs separately to residential and nonresidential customers, concluding that $230,129,810 of the total Customer Care Costs should be allocated to residential customers, while the remaining $54,936,844 should be allocated to nonresidential customers. REACT Ex. 4.0 at 29; REACT Ex. 4.4 and REACT Ex. 4.5. Further dividing these costs into the delivery and supply functions, Mr. Merola determined that of the $230,129,810 in Customer Care Costs for residential customers, $158,768,596 should be allocated to the delivery function while the remaining $71,361,214 should be allocated to the supply function. REACT Ex. 4.0 at 29-30; REACT Ex. 4.4. For non-residential customers, Mr. Merola concluded that of the $54,936,844 in Customer Care costs for non-residential customers, $38,327,424 should be allocated to the delivery function while the remaining $16,609,420 should be allocated to the supply function. REACT Ex. 4.0 at 30; REACT Ex. 4.5.

REACT claims that ComEd's position defies common sense – it simply cannot be the case that less than half of one one-hundredth of a percent – .04% – is the entire amount of Customer Care Costs attributable to the supply function. Based on Mr. Merola's analysis, less than one third of total Customer Care Costs are allocated to the supply function.

REACT also notes ComEd's suggestion that there has been an increase in the asserted allocation of Customer Care Costs from 25% in the 2005 ComEd Rate Case, to 40% in the 2007 ComEd Rate Case, to a "percentage [that] has continued to rise" in this case. ComEd Reply Br. at 11-12. REACT notes that that accusation from ComEd is demonstrably false: in fact, Mr. Merola proposes to allocate less than 31% of Customer Care Costs to the supply function in the instant proceeding.

2. *Dockets 07-0528/07-0531*

REACT notes ComEd's position that it was somehow required to allocate Customer Care Costs in a certain way by a Commission ruling in the 2007 proceeding involving ComEd's proposed procurement plan and related supply tariffs. *See* ComEd Init. Br. at 11, *Commonwealth Edison Company*, Docket Nos. 07-0528/07-0531 (Consol.) ("*Dockets 07-0528/07-0531*"). REACT states that in that proceeding the Commission Staff expressed some concern about whether the "proposed procurement tariff would create an inappropriate incentive [for ComEd] to inflate the supply rate" through inappropriate allocation of certain costs. To accommodate the Staff concern, ComEd apparently itself decided to modify its tariff to limit the kinds of costs that could be recovered through Rider PE. The Commission ultimately approved that tariff.

According to REACT, nothing about this episode constrains ComEd's ability to accurately allocate Customer Care Costs in accordance with the Initiating Order's explicit directive. REACT notes the well established point that Commission Orders do not have precedential standing of the sort that judicial orders possess. *See Abbott Laboratories, Inc. v. Ill. Commerce Comm'n*, 289 Ill. App. 3d 705, 715, 682 N.E.2d 340, 349 (1st Dist. 1997); *Ill. Bell Tel. Co.*, Docket No. 00-0393 (March 28, 2002) Order on Second Rehearing at 21.

REACT maintains that even if Commission Orders were precedential, the Initiating Order in the instant proceeding post-dates the Order in *Dockets 07-0528/07-0531* by more than nine months, so there is no question that the Initiating Order would take precedence over the older order.

3. REACT's Position in ComEd's 2007 Rate Case

ComEd quotes Mr. Merola's testimony from the 2007 ComEd Rate Case that "ComEd's supply procurement costs should be bypassable for those customers who do not take supply service from ComEd, and thus, should not be embedded in the delivery service rates." ComEd Init. Br. at 12. ComEd suggests that in the instant proceeding, "Mr. Merola now abandons his 'bypassable' rationale and, instead, points to various 'adjustments' and a 'functionalization factor' to support his conclusion that nearly $88 million in customer service costs should be allocated to ComEd's supply function and, therefore, removed from ComEd's distribution service-related revenue requirement." *Id.*

REACT explains that this statement is inaccurate. REACT reiterates that that is perhaps the most fundamental point that Mr. Merola and REACT have made throughout the course of both the 2007 ComEd Rate Case and the instant proceeding – that supply-related costs that are not attributable to customers who do not take ComEd supply should not be paid by those customers. See, e.g., REACT Ex. 2.0 at 8-9; REACT Ex. 4.0 at 21. REACT explains that this is the basic principle of cost causation – that is, the Commission's "explicit policy objective of assigning costs where they belong." ComEd 2007 Rate Case Final Order at 206.

4. Response to ComEd's Arguments regarding increased switching

REACT notes that ComEd asserts that if it were not providing supply services to a single customer (i.e., if there were 100% switching to RESs), ComEd's Customer Care Costs would actually go up. ComEd apparently is saying that if it had no obligations associated with procuring or providing power to anyone, ComEd's Customer Care Costs would increase. REACT believes that this conclusion is implausible on its face and, at a minimum, raises fundamental questions about ComEd's analytical model. REACT Ex. 2.0 at 12-13; REACT Ex. 4.0 at 15.

REACT witness Merola further explained that ComEd's concern over cost allocation problems associated with high levels of residential customer switching are theoretical at best, since ComEd admits that it projects switching levels that are orders of magnitude smaller than the switching levels that would lead to its theoretical concerns. See REACT Ex. 4.0 at 16-17.

5. REACT's Response to Staff and the AG

REACT questions the basis for Staff and the AG opposing REACT's proposed allocation of Customer Care Costs. REACT argues that Staff does not express any specific criticism of Mr. Merola's methodology or analysis; rather, Staff has theoretical concerns about (1) potential rate disparities that could occur if the accurate cost allocation that Mr. Merola has articulated were put into practice and (2) a possible conflict with the Commission's view of the "level of credit for ratepayers if their bill comes from a RES under the Single Bill Option." Staff Init. Br. at 30-31; AG's Init. Br. at 7. REACT notes that Staff also expresses a concern that implementation of Mr. Merola's accurate cost allocation could set a "precedent" that might apply to other electric and natural gas utilities. Staff Init. Br. at 31-32.

REACT asserts that these concerns are unsubstantiated and insufficient given the evidentiary record. REACT points out that Staff witness Lazare endorsed the fundamental principle of accurate cost allocation specifically in the context of Customer Care Costs. See Tr. at 463; 464; 467. The AG also supports that view. AG Init. Br. at 5.

According to REACT, Mr. Merola's testimony and documentary evidence demonstrates the substantial variance between the Customer Care Costs incurred to serve bundled and unbundled customers. See REACT 4.0 at 7-8. Thus, REACT explains that according to the principle of accurate cost allocation that Mr. Lazare and the AG recognized, those costs differences should be reflected in the rates.

REACT further argues that Staff's potential concerns over "precedent" or a possible conflict with the Commission's view of the "level of credit for ratepayers if their bill comes from a RES under the Single Bill Option" is unfounded. Staff Init. Br. at 30-32. REACT contends that the Initiating Order in the instant proceeding makes it clear that

this investigation is not constrained by the fact that the Commission may have previously made decisions, in different contexts, that have some tangential relationship to the issues here.

C. AG

The AG agrees with both Staff and ComEd. At this time, customer switching to RES service at current and potential rates does not materially alter ComEd's cost of service. Furthermore, as Mr. Lazare noted, adoption of REACT's proposal in this case would likely not only counter current Commission practice of allocating delivery costs by creating significant momentum for a proposal with significant drawbacks. The AG agrees with ComEd witness Hemphill that adoption of such a proposal would likely lead only to litigation for years to come. For these reasons, the AG requests that the Commission reject REACT's proposal.

D. Staff

With regard to the issue of how Customer Care costs are allocated to ComEd ratepayers, Staff's position is that the evidence developed in this proceeding indicates that Company's proposed method of accounting for these costs presents the most reasonable approach. Without further evidence to the contrary, Staff recommends that methodology be continued.

Staff testified that the Company's review of these costs focused on O&M costs pertaining to customer service in excess of $100,000. The Company then sought to determine the magnitude of those costs that would be incurred for delivery service customers under three scenarios in which 1%, 10% and 100% of customers choose alternative suppliers. The degree to which customer care costs changed under these three scenarios is ComEd's measure of the relative cost of providing customer care to bundled and unbundled service. Staff Ex. 1.0 at 28.

This approach found that billing and payment processing costs would be the same regardless of how many customers switched to alternative supply because the Company would have to complete all billing tasks for a customer regardless of supplier. ComEd Ex. 2.0 at 10. A similar conclusion was reached for payment processing costs because the Company maintains that the same costs would be incurred whether the customer received bundled or unbundled service. ComEd Ex. 2.0 at. 11-12. For revenue management which focuses on credit and collection policies, the Company drew the same conclusion noting, for example, that disconnections would proceed as before regardless of who supplies the power. ComEd Ex. 2.0 at 13. Staff Ex. 1.0 at 29.

Staff testified that the Company did find that certain costs for the Customer Contact Center would decline as the number of customers served by alternative service increased. ComEd determined that while about 65% of calls are storm and emergency-related and thereby independent of the number of customers receiving alternative supply, some of the remaining 35% of calls pertain to supply issues and would be

expected to decline as more customers switch to alternative service. As a result, the Company estimated labor cost savings of $46,850 and $468,602 if 10% and 100%, respectively of bundled customers switched to alternative service. ComEd Ex. 2.0 at 15-16. Staff Ex. 1.0 at 30.

Mr. Lazare further noted that ComEd found that the Electric Supplier Services Department (ESSD) which interacts with the alternative suppliers would incur increased costs as customers gravitated to alternative suppliers. If the percentage of unbundled customers increased to 10%, ComEd expects $102,855 of additional labor costs for that department. The Company estimates that an additional $334,278 in labor costs to facilitate the movement of all customers to alternative service. Furthermore, ComEd claims a switching level above 10% would necessitate significant but unstated capital expenditures to automate the process. ComEd Ex. 2.0 at 17-18. The Company also indicates that increased switching would raise the level of Information Technology spending and at 100% switching would require an additional $2,170,000 per year to be spent on an outside vendor for the overflow. ComEd Ex. 2.0 at 20-21; Staff Ex. 1.0 at 30.

Mr. Lazare concluded that the evidence presented by ComEd suggests the Company does not incur significant differences in customer service costs for bundled and unbundled customers. If customer switching were to increase ten-fold from the current 1% to 10%, ComEd identifies only a few hundred thousand dollars in additional costs that would be expended or saved as a result. Only if more significant numbers migrated to alternative supply would the impact run into the millions of dollars. Thus, this does not appear to be a significant cost issue for ComEd ratepayers. Staff Ex. 1.0 at 31.

Staff's position is that the arguments by REACT that the Company has improperly allocated Customer Care costs to delivery customers do not reflect the weight of evidence in this case and should be rejected. Staff Init. Br. at 30. As set forth in Staff's testimony, Staff's understanding is that REACT's position is that costs such as "billing, payment processing, revenue management, and information technology" not only support the delivery function but serve the supply function as well. REACT Ex. 2.0 at 11. REACT contends that ComEd over-allocates these costs to distribution because it determines the share received by the supply function on a marginal cost basis. In this proceeding where embedded costs are used for allocation and rate design, REACT contends the supply component of these costs should be identified and allocated on an embedded cost basis as well. REACT EX. 2.0 at 12. Based on this argument, REACT advocates reallocating almost $90 million in customer costs from the delivery to the supply function. REACT Ex. 2.0 at 25; Staff Ex. 2.0 at 13.

Staff witness Lazare testified that the proposal presents problems. It would create rate disparities between sales and delivery customers that would be difficult to justify from a cost standpoint. For billing, the Company is understood to incur almost identical costs in preparing, sending and processing bills for bundled and unbundled customers. In both cases, the meter must be read, the bill prepared and mailed, the payment received and processed. Nevertheless, bundled and unbundled customers

would pay significantly different billing costs according to REACT's analysis. Furthermore, a customer leaving bundled service would pay significantly less for billing services under REACT's proposal even if the underlying costs have not changed substantively. This would send an erroneous price signal concerning the relative cost of bundled and unbundled service. Staff Ex. 2.0 at 14.

Staff argued in its initial brief, that the REACT proposal also appears to conflict with the Commission's determination of the level of credit for ratepayers if their bill comes from the RES under the Single Bill Option. That credit is "a relatively low number", 54 cents for residential customers and when the cost of postage is removed, the credit is "a little bit more than a dime". Thus, for single bill it would be reasonable assume that the Commission has concluded that "the bulk of billing costs should be with the delivery utility." Tr. 465-466; Staff Init. Br. at 31.

Finally, Mr. Lazare testified that the adoption of REACT's proposal in this case would set a precedent not only for other electric utilities in Illinois, but for all gas utilities as well. REACT's argument in this docket would appear to apply to all utilities where supply costs are significant relative to delivery costs and costs are generally allocated on an embedded cost basis. Adoption in this proceeding would create significant momentum for a proposal with significant drawbacks. Staff Ex. 2.0 at 14.

E. Commission Analysis and Conclusion

The question here is from whom should the customer care costs identified in the last rate case be recovered. ComEd's proposal allocates less that one percent of its customer care costs to supply based on an avoided cost analysis. If the Commission's goal is to assign costs to the cost causers, it is difficult to imagine that less than 1% of ComEd's customer care costs are caused by supply related matters. ComEd does not explain why an avoided cost study is used for these costs and for every other cost an embedded cost study is done.

REACT's proposal would lower the delivery portion of the bills of customers that have switched. For customers that still take delivery and supply from ComEd, their costs would be about the same, but would be recovered through their supply charge, not delivery charge. REACT's proposal would shift $88 million in distribution costs from delivery function to the supply function based on REACT witness Merola's embedded cost analysis.

The choice between these two methodologies is based in policy, but the policy issues are not thoroughly discussed by the parties. ComEd cites Section 16-118 of the Act in support of its position, but does not explain how an increase in costs is impacted by the manner in which costs are allocated. Staff also touches on the implications of adopting REACT's proposal but it is hard to evaluate the best outcome without having the results of an embedded cost of service study performed by the Company. REACT asserts that it has done such a study, but its arbitrary 50-50 allocator renders it almost useless.

REACT, however, does raise many valid points and when the two methodologies are compared questions arise. The record before us does not provide the answers and because of the investigatory nature of this docket, it is appropriate that these issues be addressed in the workshop. First, the parties cannot agree on what costs we are allocating. Is it merely the O&M costs as proposed by ComEd or the much larger amount proposed by REACT that includes all the customer care costs in ComEd's ECOSS? Also are these costs first divided between residential and non-residential and if not, should they be?

Also, ComEd and REACT both attempt to identify which costs are clearly supply and which are delivery. REACT, however, points to functions that clearly support supply, yet no costs are allocated to supply for these functions in ComEd's proposal, e.g., the Large Customer Services Department. REACT proposes allocating 1/3 of these costs to supply because 1/3 of the functions support supply. The problem with this approach is that the record does not contain evidence that 1/3 of the functions are purely supply or even that these functions are 1/3 of the costs for this department. REACT informs us that it was unable to get this information from ComEd. This issue is appropriately explored in the workshop process. Similarly, REACT raises a valid argument that some portion of the calls received by the Customer Call Center should be allocated to supply.

After each party assigns the costs it believes are clearly related to supply or deliver, their methods completely differ. At this point, ComEd chose to use an avoided cost methodology and looked at whether increased switching would lower the Company's customer care costs. The result of ComEd's study is that no further costs are allocated to supply.

For REACT, after Mr. Merola assigned costs that he believes are clearly delivery to the delivery customer, he took the remaining costs and divided them 50-50 between delivery and supply. Although this is an arbitrary allocation, REACT's methodology is consistent with an embedded cost methodology. Because the record does not contain information to calculate the appropriate allocator, this is an issue appropriate for discussion in workshops. To facilitate the workshop process, ComEd is directed to perform an embedded cost study for these costs and present it for consideration and discussion in the workshop.

ComEd notes that if the Commission adopts any portion of REACT's adjustment, then the Order must make provision for recovery of those costs through either Rider PE – Purchased Electricity or Rate BESH – Basic Electric Service Hourly Pricing, as applicable. ComEd Ex. 4.0 at 8. When ComEd next requests a rate increase, these costs should be allocated as decided in this docket after the workshop process and recovered through either Rider PE or Rate BESH.

In the event that ComEd files for a rate increase prior to the completion of the workshop process, ComEd is directed to file an embedded cost of service study for

these costs and to also include the results of its avoided cost study. This will give the Commission the opportunity to review and compare both methodologies and reach a decision based on all the relevant information. If more costs are allocated to supply, then Rider PE or Rate BESH should also be modified.

V. ALLOCATION BASED ON USAGE OR THE NUMBER OF CUSTOMERS

A. ComEd

ComEd states that its analysis of the extent to which usage contributes to certain customer services costs demonstrated that, instead of usage, the number of customers determines the level of its customer billing and data management costs, installation costs, service drops costs, and customer information costs. ComEd further states that its conclusion that these costs should be allocated on the basis of the number of customers is amply supported by ComEd's extensive experience, cost causation principles endorsed by ComEd and the Commission, and past Commission approval of this allocation method.

ComEd notes that Staff agrees that ComEd's analysis of usage and customer costs is reasonable, and that Staff recognizes that this is not the first time the Commission has considered this issue: "[i]t should be remembered that the allocations of these costs on a customer basis have been presented and reviewed in previous rate cases and found to be reasonable from a cost standpoint." Staff Init. Br. at 29-30. Staff concludes that the previous findings of the Commission lend "further support to the Company's general conclusions on these costs." *Id*. at 30.

1. Billing and Data Management

According to ComEd, the costs incurred in performing ComEd's multiple functions relating to the general categories of billing and data management include, but are not limited to, costs for billing, revenue management, credit and collection, account management, the Customer Contact Center, and customer relations. ComEd Ex. 2.0 at 24. Customer usage does not determine the level of costs incurred for billing and data management. these are largely fixed costs that do not vary with usage; rather, ComEd's experience has been that these costs vary with the number of customers (or, more precisely, the number of bills and data elements that must be managed each month).

2. Customer Installations

Customer installations services include investigating distribution customer complaints, investigating unmetered current conditions, and requests from customers for temporary services, relocation of facilities, and/or revision of current service. ComEd Ex. 2.0 at 25. The direct costs of customer installations services are recorded in Account 587 - Customer Installations Expenses. ComEd's experience has been that

the levels of costs incurred for these activities vary with the number of customers and not the level of customer usage.

3. Service Drops

ComEd's costs for providing service drops result from the installation of overhead and underground conductors leading from a point on ComEd's distribution system to the point of connection with the customer's wiring (e.g., meter socket, service entrance, or main switch). According to ComEd, usage does not contribute to these costs. ComEd Ex. 2.0 at 28. Instead, ComEd's experience has been that the number of customers determines the level of these costs in any given year. Moreover, ComEd notes that it provides standard size lengths of service regardless of customer's usage.

4. Customer Information

Customer information costs include costs for market research, demand management, and advertising. ComEd asserts that these costs vary according to the number of customer, and are not dependent upon usage.

5. ComEd's Response to the City's Position

ComEd opposes the City's request for allocation of certain customer services costs on the basis of usage. ComEd argues that, in the face of substantial evidence supporting its allocation on the basis of the number of customers, the City presents nothing more than a summary of the types of costs in each account at issue and the illogical conclusion that, because the purportedly optimal manner of allocation is not possible for many of these accounts, these costs should, by default, be allocated based on energy usage.

ComEd also argues that the City's numerous arguments about ComEd's analysis are unavailing. First, the City argues that ComEd uses "misleading" account titles, though ComEd demonstrated that the subject account titles and associated costs are primarily based on the 2006 FERC Form No. 1 Annual Report (FERC Form 1) and the ILCC Form No. 21 Annual Report (ICC Form 21), and, therefore, ComEd's use of the account titles at issue is directed by law.

Second, ComEd states that it has properly recorded costs in the challenged accounts. Third, despite the City's repeated claim that ComEd's analysis is "regressive," the City fails to demonstrate how ComEd's analysis is flawed in such a way that the Commission cannot rely upon it.

For all these reasons, ComEd argues that the Commission should reject the City's proposal and accept ComEd's allocation of costs based on the number of customers instead of usage with respect to the aforementioned costs.

B. City

The City argues that a better method for allocating these costs is to allocate them to ratepayer classes by splitting the costs between residential and nonresidential classes and then allocating the costs on the basis of energy used.

The City notes that in its Rate Order, the Commission agreed with the City's argument that ComEd's preferred method of allocating customer costs based on the number of customers in each customer class encouraged inefficient energy consumption, stating

> The City argues that imposing costs on customers who use less energy is, at best, inconsistent with the General Assembly's mandate that reducing energy use is a vital policy objective of the State.
>
> The Commission agrees. Customer costs are about 20% of the total cost of service. Because the allocation of customer billing costs, data management costs, installation costs, service drops, and customer information costs are assigned on the number of customers, residential customers currently pay 80% of them. These costs should be attributed as far as is practical to the cost causers.

Docket 07-0566, Order at 211. In its Initiating Order, the Commission ordered ComEd to "analyze[ ] the extent to which usage contributes to customer billing costs, data management costs, installation costs, service drops, and customer information costs and whether factors other than the number of customers in a class should be taken into account in the assignment of these costs to rate classes." Initiating Order at 2.

The City asserts ComEd made little, if any effort to comply with the Commission's directive. According to the City, ComEd's lack of effort is shown by statements like this one made by ComEd witness Meehan regarding the allocation of customer service costs: "ComEd's analysis shows that usage does not contribute to ComEd's customer services costs. Instead, ComEd's experience has been that the number of customers determines the level of these costs." ComEd Ex. 2.0 at 3. The City claims that that is the sum total of ComEd's "analysis."

The City argues that because ComEd made little effort to comply with the Commission's Initiating Order, Mr. Bodmer conducted a detailed study of ComEd's accounts to determine how these costs should be properly allocated. Mr. Bodmer testified that in deciding how to allocate customer costs, one must keep in mind the business that ComEd is in as a monopoly distribution company – moving power over distribution lines. City Ex. 1.0 (2nd Rev.) at 55. Mr. Bodmer added that electricity usage, not the number of customers, drives the costs of the distribution system. *Id*. at 56. Mr.

Bodmer stated that ComEd's allocation method ignores that basic principle, instead allocating costs in what he termed is the most regressive manner possible. *Id*. at 56.

The City asserts that certain costs, like ComEd's so-called customer-related costs do not easily fit within any cost allocation box. *Id.* at 66. Examples of such costs include the costs ComEd's Call Center incurs to handle customers who are moving, the costs of customers who call ComEd with complaints, customers who request a change in the type of service, and upper management salary costs. *Id*. at 66, 67. Mr. Bodmer testified that ComEd's default is to allocate these not-easily-allocated costs using the most regressive means available, the number of customers within each class.

The City argued that a more fair method for allocating the costs identified in the Commission's Initiating Order is "to allocate the costs to ratepayer classes by first splitting the costs between residential and non-residential classes. Then, within the residential class, the costs should be allocated on the basis of energy used and not on the basis of the number of ratepayers." *Id*. at 67-68.

1. Data Management Costs

According to the City, ComEd includes items such as the costs the utility incurs to handle customers who are moving in Data Management Costs. Mr. Bodmer explained that it is unfair to allocate the costs of customers who move based on the number of customers because it unfairly burdens multi-family customers (many of whom are often low-use customers) to have to pay a higher proportion of such costs than a customer moving from one large house to a larger house in the collar counties. *Id*. at 69, LL 1513-19. Mr. Bodmer testified that a more reasonable method for allocating the costs associated with customers who move is "to split the moving costs first between residential and non-residential ratepayers, and then allocate the costs within the residential class on the basis of energy used." *Id*. at 69.

The City states that ComEd also includes the $4.8 million cost of addressing billing mistakes in Data Management Costs. *Id*. When administrative costs and overhead are included, the cost associated with dealing with billing errors increases to almost $11 million. *Id*. The City asserted that although it is exceedingly likely that a large percentage of billing errors are associated with large, complex bills, ComEd allocates the cost based on the number of customers, with the result that this burden falls heaviest on residential customers. *Id*. at 69-70. Mr. Bodmer recommended that it would be fairer to allocate billing error costs by first segregating billing error costs into residential and non-residential categories, and then allocating the amount within the residential classes based on usage. *Id*. at 70.

The City claims that this is the one part of Mr. Bodmer's analysis of customer-related costs that ComEd directly challenged. In his surrebuttal testimony, ComEd witness Meehan stated that "of the over 92,000 billing adjustments made by ComEd in 2006, more than 65,000 were made for residential customers." ComEd Ex. 9.0 at 9. That means that 72% of the billing adjustments ComEd made in 2006 were made for

residential customers (although ComEd presented no evidence of the dollar amount of the such billing adjustments). Tr. at 444. The City stated that residential customers make up 90.6% of ComEd's total customers *Id*. at 350. In other words, according to the City, ComEd's analysis shows that although residential customers are only responsible for 72% of the number of billing adjustments, the utility allocates 90% of such costs to them. Thus, the City concluded that the one instance in which ComEd actually analyzed an item included in its customer-related costs shows that its preferred allocation method is crude at best.

2. Customer Installation Costs

The City asserts that ComEd includes the costs associated with customers who request a change in service and customer complaints in the customer installation cost category. City Ex. 1.0 (2nd Rev.) at 70. As to customer complaints, Mr. Bodmer testified that most of the complaints concern power quality issues. *Id*. at 70. The City argued that it is highly unlikely that residential customers generally, and low-use residential customers in particular, call to complain about power quality issues. Yet, ComEd's allocation method nonetheless imposes the majority of these costs on these customers. *Id*. The City concluded that a far more reasonable allocation method "would be to first separate the costs between residential and non-residential ratepayers and then allocate the costs within the residential class on the basis of energy." *Id*. at 71.

3. Customer Information Costs

The City noted that the customer information cost category includes such items as "providing technical services to ratepayers, market research, management of curtailment, City of Chicago College training, Exelon environmental strategy costs, and Nature First." *Id*. at 74. Mr. Bodmer stated that many of these cost items, such as management of curtailment and providing technical service to customers, have nothing to do with residential customers. *Id*. at 74-75. Yet, ComEd allocates these costs based on the number of customers, which has the largest impact on residential customers.

Mr. Bodmer analyzed all the project descriptions that ComEd includes in its customer information costs category. He then determined whether each project should be put into one of four categories: "whether (1) they should be allocated to business ratepayers, or (2) across all customer classes on the basis of demand, or (3) within the residential class, or finally (4) as overhead costs that should in turn be allocated to each of the items." *Id*. at 76. Based on his analysis, Mr. Bodmer concluded that "only 43% of the cost should be allocated to residential ratepayers" and 31.9% of the cost should be allocated to non-residential customers. *Id*. at 78-79.

4. Responses to ComEd

The City notes that ComEd spent much of its time taking issue with a statement Mr. Bodmer made in his Direct Testimony that account titles are misleading. ComEd Init. Brief at 16-18. The City responds that, in retrospect, the comment from Mr.

Bodmer's testimony was unfortunate as it has nothing to do with the detailed and thorough analysis that Mr. Bodmer conducted of these cost items. The City asserts that ComEd's point is a distraction at best.

Ultimately, according to the City, ComEd fell back on its assertion that the Commission has approved its method for allocating these costs in many past cases. *Id*. at 18. Staff made a similar point. Staff Init. Brief at 28-29. In response to Staff witness Lazare's argument that the Commission had approved ComEd's method for allocating these costs in past rate cases, Mr. Bodmer explained that these costs have not been reviewed in detail in past cases. In particular, Mr. Bodmer stated:

- When ComEd used its [marginal-cost-of-service study], many of the customer costs (such as installation costs and customer information costs) were not defined as a marginal cost. By definition this means that these costs were incorporated in the difference between revenue requirement and cost of service. Because ComEd was then an integrated utility, much of the marginal cost was driven by energy, meaning the costs were allocated to a large extent by energy.
- The City briefly reviewed the allocation of expenses in the 2001 rate case and based on the City's testimony, ComEd was ordered to split the expenses between residential and non-residential ratepayers in what it now calls "direct assignment" to different ratepayer classes.
- In the 2005 case, the City did not present its own testimony on rate design, but co-presented testimony by Scott Rubin who did not address customer costs. In the 2005 case, no testimony was presented on the allocation of customer costs.
- In the last rate case, *Docket 07-0566*, the City examined customer costs, but there was not sufficient information to adequately investigate the cost causation and the cost allocation of such expenses. *Docket 07-0566*, Order at 211. This lack of information prompted the Commission to include customer costs in its Initiating Order as an issue that required additional analysis. Stating that the issue was decided in past cases does not constitute additional analysis.

City Ex. 2.0 (Rev.) at 39-40. The City argued that contrary to ComEd's and Staff's claims, the relevant customer costs have not been reviewed in detail in past rate cases.

5. Summary of Customer Cost Issues

The City points out that Mr. Bodmer summarized the many aspects of his analysis of customer cost issues in his rebuttal testimony. In that summary, Mr. Bodmer stated that in conducting his analysis, he "worked through each account provide by ComEd and identified the cause of each cost." City Ex. 2.0 (Rev.) at 32. Based on this analysis, Mr. Bodmer stated that he made the following adjustments:

Many of the costs such as outage costs, general transmission and distribution costs, software costs, and management salaries are general costs that are associated with operating a distribution utility company. Rather than allocating these costs on the

basis of the number of ratepayers, these costs should be allocated on the same basis as general distribution costs *i.e.*, on the basis of CP or NCP.

- Customer information costs such as Nature First and City Colleges that provide general system benefits should be allocated on the basis of general demand allocators rather than the number of customers, since these programs are designed to benefit all customers.
- Theoretically, billing exceptions costs should be allocated on the basis of ratepayers who cause the billing error to occur. This is not possible because there is no rate class for customers who have billing exceptions. However, ComEd's method of allocating these costs on the basis of the number of customers is not reasonable. A better alternative is to split the costs between residential and non-residential ratepayers and allocate the costs on the basis of energy within the residential class.
- Complaint costs should be allocated on the basis of ratepayers who com-plain. This is not possible and the ComEd's method of allocating theses costs on the basis of the number of customers is unfair. A better alternative is to split the costs between residential and non-residential ratepayers and allocated on the basis of energy within the residential class.
- Collections costs should be allocated to ratepayers who are delinquent. Since the revenues associated with late collection fees are not separated in the ECOSS, allocating costs on the basis of the number of customers is unfair to those low use ratepayers who pay their bills on time. A fairer alternative is to split them between residential and non-residential ratepayers and allocate them on the basis of energy within the residential class.

Id. at 32-33.

The City notes that Mr. Bodmer also summarized the cost impact of his customer cost analysis. Mr. Bodmer included a table showing that his recommendations would allocate almost $49 million in costs from residential classes to non-residential classes. *Id*. at 31. Mr. Bodmer added that although his recommendations "result in a reduction in overall cost of service to multi-family ratepayers of more than 15%," these customers would still be "allocated 16% of the total costs even they only use 7.5% of the total amount of energy on the system." *Id*. at 31.

The City adds that there are two especially notable factors about Mr. Bodmer's analysis. First, as Mr. Bodmer pointed out, ComEd did not challenge the details or identify any large errors in his analysis. *Id*. at 33. Second, and maybe more importantly, Mr. Bodmer's lengthy and detailed analysis is in stark contrast to the cursory way in which ComEd treated customer cost issues.

C. Staff

According to Staff, the Company's analysis of usage and customer costs appears to be generally reasonable. For most of the costs identified, the Company provides a reasonable explanation of why customers, rather than usage or some other factor, provides the best allocation approach. Staff points out that historically, these costs have been allocated on a customer basis and found to be reasonable in prior rate cases.

D. Commission Analysis and Conclusion

In the Initiating Order, the Commission directed ComEd to analyze the extent to which usage contributes to certain customer services costs. ComEd asserts that it performed the requisite analysis and concluded that usage does not contribute to ComEd's customer services costs. Therefore, ComEd's ECOSS presented in this proceeding allocates these costs on the basis of the number of customers, which is historically how they have been treated. The question is whether this practice should be changed in ComEd's next rate case.

We note at the outset that the City raises many of the same arguments that it raised in the *Docket 07-0566* proceeding. Also, the City's position appears to be results driven in that it seeks to reduce rates for multi-family residential customers, without necessarily looking at cost-causation.

Mr. Bodmer's analysis for each set of costs notes that he first divided these costs between residential and non-residential customers. It is not readily apparent if ComEd also made this distinction. This is a reasonable approach because many of these costs would presumably be very different for residential and non-residential customers and this distinction should be implemented in ComEd's next rate filing for all of the costs discussed in this issue. Also, by first separating between residential and non-residential and then allocating based on the number of customers would seem to address much of the City's concerns with respect to billing adjustments.

We now address the cost categories that the City proposes be based on usage. The first area of costs are for billing and data management. According to ComEd, the costs incurred in performing ComEd's multiple functions relating to the general categories of billing and data management include, but are not limited to, costs for billing, revenue management, credit and collection, account management, the Customer Contact Center, and customer relations. ComEd Ex. 2.0 at 24. ComEd asserts that these are largely fixed costs that do not vary with usage, but that these costs vary with the number of customers (or, more precisely, the number of bills and data elements that must be managed each month). This is a reasonable assertion and the City has not shown it to be otherwise. One example of costs included in this category are costs the utility incurs when customers move. Contrary to the City's assertions, it is reasonable to allocate these costs based on the number of customers, because the more customers in a class, the more customers that move.

For customer installation costs, ComEd's method is adopted, with the exception that the costs should first be divided between residential and non-residential, if ComEd does not already do so. It is reasonable that costs related to investigating distribution customer complaints, investigating unmetered current conditions, and requests from customers for temporary services, relocation of facilities, and/or revision of current service would vary based on the number of customers.

With respect to service drops, the Commission agrees with ComEd that the costs for providing service drops is also dependent on the number of customers. Moreover, we note that ComEd notes that it provides standard size lengths of service regardless of customer's usage. ComEd's treatment of these is accepted, but one question remains. In its Initial Brief, Staff states that the "Company's explanation of how service drops are determined presents a problem." Staff Init. Br. at 30. Staff goes on to explain why it believes there is a problem, but fails to explain whether the problem conflicts with Staff's general position that the Company's analysis is correct. Unfortunately ComEd does not address this in its Reply Brief.

Customer information costs include costs for market research, demand management, and advertising. ComEd asserts that these costs vary according to the number of customer, and are not dependent upon usage. The connection to the number of customers is not apparent for these costs. In fact, for costs related to demand management, customers that use more should probably pay more. For this area of costs, the Commission adopts the City's proposal to recover these based on usage.

VI. UNCOLLECTIBLES

A. ComEd

ComEd states that its ECOSS allocates residential uncollectible costs uniformly across its four residential classes, which results in shifting approximately $3.6 million of ComEd's distribution revenue requirement from multi family residential customers to single family residential customers.

ComEd notes that one of the City's arguments is that uncollectible costs are not recovered from cost causers because the cost causers do not pay their bills for electric service. In response, ComEd states that customers that do not pay their bills are still responsible for their own uncollectible costs unless they have moved or live without electricity.

ComEd urges the Commission to reverse the direction it gave to ComEd in the Initiating Order on this issue.

B. City

City witness Bodmer pointed out that although ComEd initially complied with the Initiating Order, the utility did the minimum in doing so. Mr. Bodmer explained that there are three ways to allocate costs that are directly assignable: 1) based on the number of customers in each class, which Mr. Bodmer described as the most regressive method; 2) based on class revenues, which Mr. Bodmer describes as somewhat less regressive; and 3) based on energy usage, the least regressive method. According to him, the Company chose the second method in its initial filing. The City argues that ComEd's choice to allocate uncollectible expense based on class revenues is regressive because multi-family customers, who are often low-use and low-income customers, pay high rates relative to other classes. Accordingly, the City recommends that the Commission direct ComEd to allocate based on usage.

Mr. Bodmer also testified that ComEd failed to include certain indirect costs associated with uncollectible expense in its allocation. Mr. Bodmer calculated the amount of these indirect costs and concluded that the total of indirect uncollectible account expense was $37 million.

In response to Staff and the AG's argument that the City's position conflicts with cost-causation principles, the City points to witness Bodmer's testimony that costs for ratepayers who do not pay their bills should not be imposed disproportionately on low income ratepayers who do pay their bills. He agrees that there is no doubt that people who rent and/or have low incomes are more likely to not pay their bills than people who live in large single family homes. But, he notes, this does not mean that imposing costs on multifamily ratepayers who do pay their bills is cost based. Mr. Bodmer stated that if your neighbor does not pay his bill, this does not mean that you caused ComEd to incur the expense of your neighbor's uncollectible account.

Further, the City argues that uncollectible costs are not like other costs ComEd incurs in providing service; they are not associated with providing facilities or equipment to specific groups of customers. In sum, the City states that there is no evidence or arguments that have been presented in this case to cause the commission to change the conclusion it reached in *Docket 07-0566*.

C. AG

According to the AG, the Commission directed ComEd to evaluate the allocation of uncollectible expenses across all residential classes, rather than based on the cost to serve each residential subclass. The AG notes that, based on the Company's evaluation, the result of allocating uncollectible expenses across all residential classes is that $3.6 million of the revenue requirement shifts from multi-family residential customers to single-family residential customers. The AG's position is that ComEd's cost of service study should use the specific uncollectible accounts expense rates for each residential subclass.

The AG states that the purpose of a cost of service study is to determine the cost to serve each class of customers using the best data available and a reasonable level of analysis. According to the AG, the data analysis in this case show that ComEd's uncollectible accounts expense is higher for multi-family customers than it is for single-family customers. If the contribution of each residential rate class to uncollectibles can be identified, then those contributions would provide the foundation for a cost-based allocations. If uncollectibles allocations differ from these contributions, any directive to allocate uncollectibles across all residential classes would clearly deviate from those contributions and thereby stray from cost-causation principles.

D. Staff

Staff asserts that the Commission's requirement pertaining to the allocation of uncollectibles costs presents a problem because it conflicts with cost causation principles. Staff notes that the Company implemented the Commission order by utilizing an equal percentage of revenues allocator for all residential classes. Staff illustrates the result with an example where uncollectibles are assumed to account for 1.5% of revenues for the single family non-heating class and for 2% of revenues for all four residential classes collectively. Under ComEd's previous methodology, the single family non-heating class share of uncollectibles would be based on the 1.5 % figure for the individual class. However, the new approach bases uncollectibles for the single family non-heating class on the 2% level of uncollectibles incurred by all four residential classes. According to Staff, this conflicts with cost-causation principles.

E. Commission Analysis and Conclusion

In the *Docket 07-0566* Order, the Commission stated:

> The City next points out that the ECOSS allocates 38.4% of its uncollectible costs to low use, non-space heat, multifamily customers who account for 5% of energy sales, rather than spreading the cost across the board to all residential classes. A large proportion of City customers are in this class. The City argues that the theory behind this allocation is apparently that the Company has determined that a larger portion of uncollectible costs should be attributed to that class of customers who in the future may be most likely not to pay their bills based on past experience.
>
> It is ironic that ComEd objects to allocating new facilities expenses on a geographic basis to the customers in the areas driving the request for a rate increase, but finds it appropriate that multi-family non-space heat customers should be charged for unpaid bills attributable to other delinquent multi-family customers. In any event, the Commission finds that this allocation method is unfair and

> inconsistent with the allocation of other residential customer costs. We agree with the City in this instance.

Docket 07-0566, Order at 212. The Initiating Order directed ComEd to file an updated cost of service study that allocates uncollectible debt expense costs across all residential classes. The Commission has not been presented with any argument or evidence that compels a different conclusion.

Staff and the AG rely on cost-causation principles to support their position. This argument is based on the cost of serving the type of people that live in apartments, not the cost of providing electric service to people that live in multi-family units. This is an invalid distinction for rate design purposes. Customers that live in apartments that do pay their bills do not cause ComEd's costs to rise any more than paying customers that live in single-family residences. If a customer's neighbor does not pay his bill, this does not mean that the paying customer caused ComEd to incur the expense of the neighbor's uncollectible account. Thus, the Commission agrees with City witness Bodmer's analysis of these costs and finds that uncollectible costs are not like other costs ComEd incurs in providing service; they are not associated with providing facilities or equipment to specific groups of customers.

VII. NEW RATES

A. ComEd

Consistent with the Initiating Order, ComEd states that it updated its ECOSS to incorporate, where necessary, the results of the five Commission-required analyses set forth in the Initiating Order. Through its evidentiary presentation and briefs, ComEd asserts that it has met the Initiating Order's directives, conducting reasonable analyses and presenting an ECOSS and corresponding illustrative rates upon which the Commission can reasonably rely to examine ComEd's existing rate structure. ComEd states that its ECOSS, as refined slightly in rebuttal testimony, employs a methodology similar to that used for ECOSSs that the Commission previously has used to set rates.

ComEd states that it is not seeking to change rates at the conclusion of this proceeding. Accordingly, ComEd denies assertions that it has selected winners and losers among customer classes. ComEd merely contends that its ECOSS is reasonable and can be used to evaluate the allocation of costs between customer classes. The ECOSS and resulting analyses simply quantify the revenue shifts that would be associated with allocating each class its full share of the costs attributable to providing delivery service to the class. ComEd notes that the AG, BOMA, the Commercial Group and Kroger do not object to ComEd's ECOSS, and that Staff only suggests limited amendments to the ECOSS, but generally supports its adoption.

ComEd also submits that its illustrative rate design spreadsheets, when compared to the rate design spreadsheet used to set establish rates in compliance with the Commission's Order in ComEd's 2007 Rate Case, allow the Commission to assess

the equitable, cost-based revenue recovery responsibility of each delivery class for delivery service to the revenue recovery responsibilities that result from the "mitigated" rate design approved by the Commission in ComEd's 2007 Rate Case. ComEd notes that the comparison shows that customers in the Extra Large Load Delivery Class, High Voltage Delivery Class and Railroad Delivery Class currently benefit from subsidies.

B. IIEC

IIEC opposes rate increases for any party on the basis of the primary/secondary analysis and the ECOSS ComEd has presented in this case, both because of their persistent deficiencies and because of the ratemaking considerations the Commission has recognized, like rate continuity. IIEC notes that the rates approved by the Commission in *Docket 07-0566* (ComEd's last rate case) have been in effect for only a little more than one year. IIEC contends that, in light of the current economic environment and continued high unemployment levels, this is not the time to increase rates for any customer group or class in the context of a case where ComEd has not requested a rate increase of any kind.

Further, IIEC notes that CG alleges that rate inequities were identified in *Docket 07-0566* and that new tariffs should be filed to address those inequities. In response, IIEC points out that the Commission also found, in *Docket 07-0566*, that ComEd's ECOSS contained serious deficiencies. Moreover, IIEC alleges that serious deficiencies remain in ComEd's ECOSS filed in this case.

The language contained in the Initiating Order does not bond the Commission to making changes to current rates. Thus, IIEC asserts that the Commission should use what has been learned in this case to adjust and modify ComEd's primary/secondary analysis and ECOSS so that it can be used in the next delivery service rate case to set ComEd's rates.

C. Metra

Metra states that the revised ECOSS submitted by ComEd suffers from so many fundamental flaws that it cannot be relied upon to produce just and reasonable rates. Metra requests that the Commission reject ComEd's proposed revised ECOSS; direct ComEd to prepare an ECOSS that properly assigns to the Railroad Class only the costs for that part of the delivery system delivering voltage at or above 12.5 kV; direct ComEd to explore whether costs of the 34.5 kV distribution facilities should be allocated to the Railroad Class given that they are primarily in rural areas; and direct ComEd to participate in the workshop recommended by Staff to develop an appropriate and reasonable ECOSS.

D. CG

CG is an association of retail companies that own and operate retail stores within ComEd's service territory, including Best Buy Co, Inc., J.C. Penney Corporation, Inc.,

Macy's, Inc., Safeway, Inc., and Wal-Mart Stores, Inc. CG's membership also includes the Illinois Retail Merchants Association.

CG asserts that ComEd's revised ECOSS is a significant improvement over its prior ECOSS. According to CG, the inter-class subsidies embedded in current rates are even larger than previously indicated and points out that the cost to serve the Medium Load, Large Load, and Very Large Load customers is approximately $41 million less than that calculated by the ECOSS in *Docket 07-0566*. Thus, CG recommends that the Commission direct ComEd to filed revised rate tariffs based on the cost study it adopts so as to reduce or eliminate rate inequities.

E. Kroger

Kroger recommends that the Commission direct ComEd to incorporate primary/secondary cost differentiation in the cost of service study performed for the Company's next rate proceeding, utilizing the information developed in this docket.

F. CTA

According to the CTA, the record in this docket shows that ComEd's revised ECOSS does not properly separate costs between primary and secondary voltage levels. In addition, the CTA asserts that the revised ECOSS incorrectly assesses the Railroad Class for costs associated with facilities below 12.5 kV – facilities that do no serve the Railroad Class. Also, the ECOSS as proposed does not take into account the public policy directives from the Commission regarding the Railroad Class.

Thus, the CTA recommends that the Commission order ComEd to conduct a cost of service study that properly allocates costs between primary and secondary voltage service and that does not allocate costs of facilities that operate below 12.5 kV to the Railroad Class. The CTA argues that this study should be completed and thoroughly vetted before ComEd's rates are changed or modified in another proceeding. Because ComEd's revised ECOSS as filed in this docket remains fatally flawed, the CTA avers that the Commission should not adjust any rate design at the conclusion of this docket.

G. DOE

The DOE argues that the Commission should not set new rates based solely on the new cost of service study. DOE states that evidence has not been presented that would allow the Commission to balance the interests of ratepayers and stockholders in order to determine if rates are just and reasonable contrary to findings of the Appellate Court. See Citizens Utility Board v. Ill. Comm. Comm'n., 276 Ill. App. 3d 730, 737-738 (1995).

According to the DOE, the scope of this proceeding has been limited to investigation of theories which should together form the best methodology for the measurement and allocation of ComEd's costs. The DOE asserts that CG goes far

beyond that and would have the Commission order ComEd to effectuate those significant but purely theoretical changes without examining public policy consideration or balancing the above-described competing interests, especially rate impact.

H. Commission Analysis and Conclusion

From all the issues and questions that remain with respect to ComEd's ECOSS, it is apparent that no change in the Company's tariffs should be ordered at this time. As discussed above, a workshop process is appropriate and should be initiated by Commission Staff. The workshop shall be completed within six months from the date of this order, unless extended by the ALJs for good cause shown. ComEd is directed to incorporate the results of the workshop into a new ECOSS that will be presented for consideration and approval in this docket and for use in future rate cases. Parties may file verified initial and reply comments on the new ECOSS. After the comment period, the ALJs will issue another proposed order and exceptions will be scheduled and a final proposed order presented to the Commission.

In the event that ComEd files a rate case prior to the completion of the workshop and approval process, ComEd is directed to incorporate the conclusions discussed above into its ECOSS with that filing. In addition, if any workshop issues are resolved during the course of the rate case or this docket is completed, the results should be incorporated into the ECOSS in the rate case.

VIII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

(1) Commonwealth Edison Company is an Illinois corporation engaged in the transmission, distribution, and sale of electricity to the public in Illinois and is a public utility as defined in Section 3-105 of the Public Utilities Act;

(2) the Commission has jurisdiction over the parties and the subject matter herein;

(3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact and conclusions of law;

(4) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that customers receiving untransformed power at 4kV are primary system customers who should be identified. Rates charged to these customers should be adjusted to reflect that they do not use the secondary distribution system;

(5) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that customers receiving power through transformers at levels below 4kV should be considered secondary system customers and charged accordingly;

(6) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect the City of Chicago's responsibility for overhead and maintenance costs for street lighting is consistent with that of other members of the Dusk to Dawn lighting class;

(7) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that the cost of City of Chicago street lighting service drops in the ECOSS should be reduced to $183,000;.

(8) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect the allocation of $248,000 to the City of Chicago in the ECOSS as a proportionate share of the cost of operating ComEd's secondary distribution system for street lighting purposes;

(9) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that the allocation of costs to substations and primary lines should be made on a coincident peak basis;

(10) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should separate its customer services costs between residential and non-residential customers and recover its costs related to customer information based on usage;

(11) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should allocate its uncollectible debt expense costs across all residential classes as found herein;

(12) Staff should commence a workshop proceeding to be completed within six months to address issues relating to the primary/secondary split, street lighting and customer care costs as discussed above;

(13) at the conclusion of the workshop process, ComEd should file an updated ECOSS for consideration and approval in this docket as outlined herein;

(14) in the event ComEd files for a rate increase prior to completion of the workshop process, ComEd should file an embedded cost of service study for its customer care costs;

(15) in the event ComEd files for a rate increase prior to the completion of this docket include the revisions to its ECOSS as required in this Order.

IT IS HEREBY ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that customers receiving untransformed power at 4 kV are primary system customers who should be identified. Rates charged to these customers should be adjusted to reflect that they do not use the secondary distribution system.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that customers receiving power through transformers at levels below 4 kV should be considered secondary system customers and charged accordingly.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect the City of Chicago's responsibility for overhead and maintenance costs for street lighting is consistent with that of other members of the Dusk to Dawn lighting class.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that the cost of City of Chicago street lighting service drops in the ECOSS should be reduced to $183,000.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect the allocation of $248,000 to the City of Chicago in the ECOSS as a proportionate share of the cost of operating ComEd's secondary distribution system for street lighting purposes.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that the allocation of costs to substations and primary lines should be made on a coincident peak basis.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should separate its customer services costs between residential and non-residential customers and recover its costs related to customer information based on usage.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should allocate its uncollectible debt expense costs across all residential classes as found herein.

IT IS FURTHER ORDERED that Staff shall commence a workshop proceeding to be completed within six months to address issues relating to the primary/secondary split, street lighting and customer care costs as discussed above.

IT IS FURTHER ORDERED that at the conclusion of the workshop process, Commonwealth Edison Company should file an updated ECOSS for consideration and approval in this docket as outlined herein.

IT IS FURTHER ORDERED that in the event Commonwealth Edison Company files for a rate increase prior to completion of the workshop process, it shall file an embedded cost of service study for its customer care costs.

IT IS FURTHER ORDERED that in the event Commonwealth Edison Company files for a rate increase prior to completion of the workshop process, it shall include the revisions to its ECOSS as required in this Order.

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding which remain outstanding are hereby denied.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Section 200.880, this Order is not final; it is not subject to the Administrative Review Law.

DATED:	February 1, 2010
BRIEFS ON EXCEPTIONS DUE:	February 16, 2010
REPLY BRIEFS ON EXCEPTIONS DUE:	February 22, 2010

Leslie Haynes,
Terrance Hilliard,
Administrative Law Judges